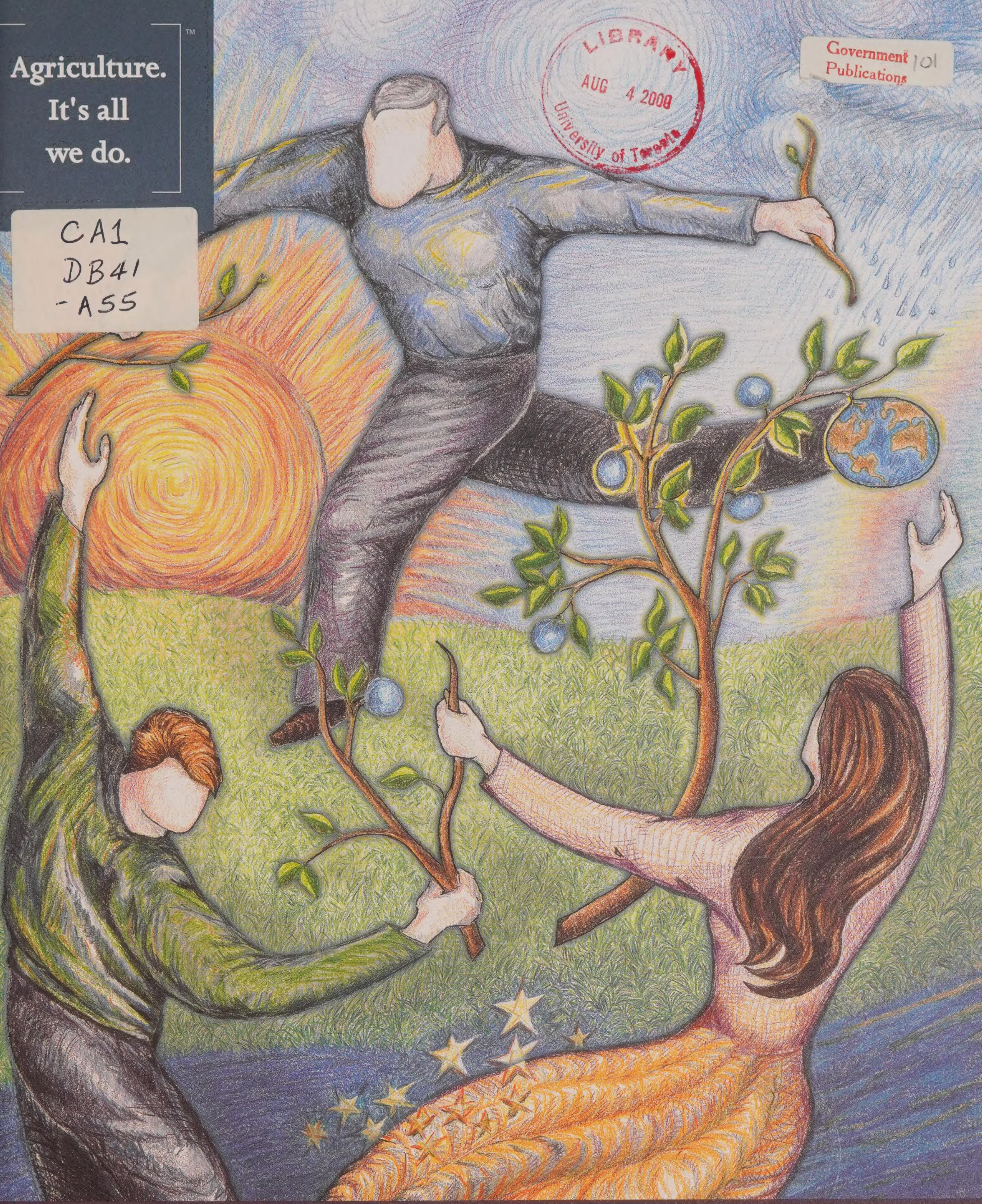


Farm Credit Corporation 1999-2000 Annual Report

CORPORATE Values

Customer Service. We are committed to building customer loyalty by consistently providing value with exemplary service.

Trust and Respect. We build client trust and respect by conducting our business in a fair and ethical manner and by being sensitive to customer values.

Teamwork. We advocate teamwork and empowerment for staff to do their jobs effectively.

Continuous Learning. We promote professional development of staff and continuous learning.

Partnerships. We believe in partnerships that further enhance our commitment to agriculture.

Corporate Social Responsibility. We support community activities consistent with our vision and are sensitive to the protection of our environment.

Diversity. We believe that a diverse workforce reflecting the various backgrounds and cultures of Canadians brings strength to the organization.

Mission

Our mission is to enhance rural Canada by providing specialized financial services to farming operations – including family farms and small to medium-sized agribusiness – with an emphasis on personalized service.

Vision

Visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Corporate Profile

Farm Credit Corporation is Canada's largest agricultural term lender, offering flexible financial solutions to primary producers and agribusiness. Corporate office is located in Regina, Saskatchewan with 900 employees serving customers from 100 offices across Canada. FCC's loan portfolio includes 43,700 customers and is valued at $6.3 billion. FCC delivers joint programs and services with government agencies and other financial institutions.

The 1999-2000 annual report was produced by Farm Credit Corporation's Communications & Public Relations and Finance Divisions. Chloé Gendron, FCC's Senior Graphic Designer, created the original illustration for the cover. The illustration symbolizes the meaning of agriculture – people, nature, growth, the passing of time and impact of weather and the environment. FCC customers, employees and Directors were photographed by Paul Austring (except for Quebec customers), with Strategic Plan photograph by Douglas Walker of Regina.

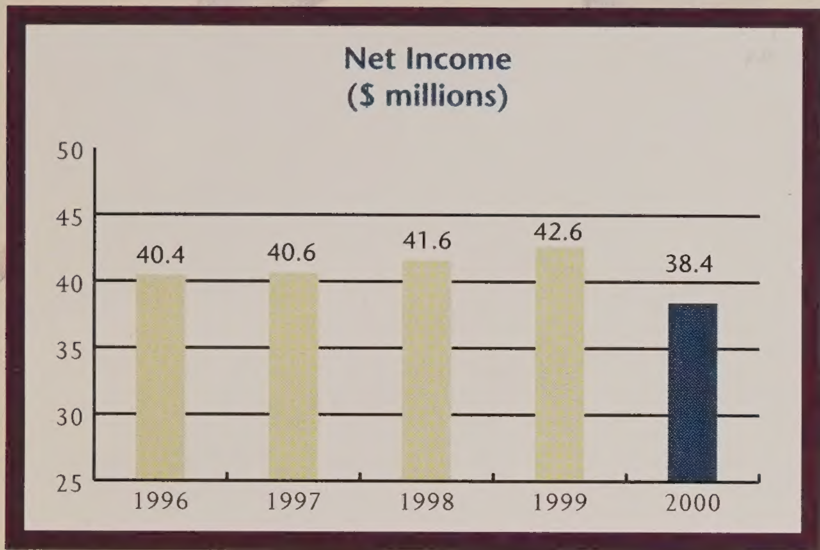
Table of Contents

1999-2000 Operational and Financial Highlights

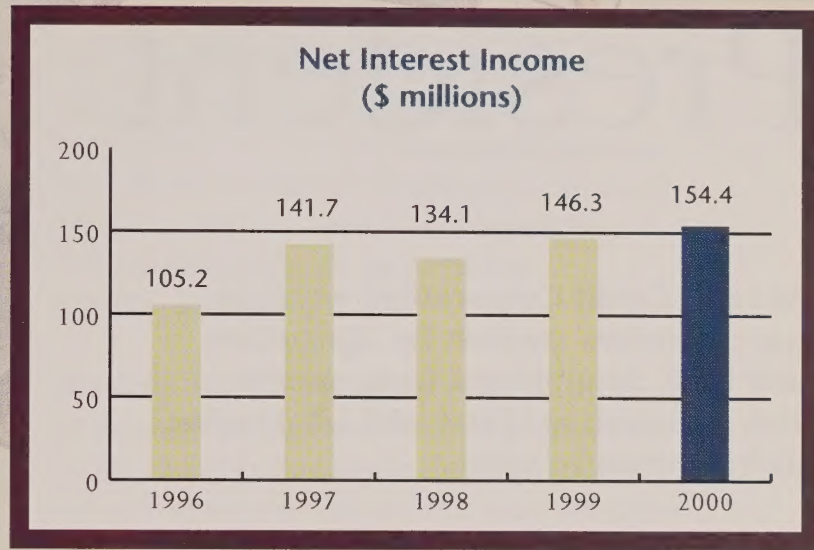
FOR THE YEARS ENDED MARCH 31

Operational	2000	1999	1998	1997	1996
Total Loans Receivable Portfolio					
Number of loans	**73,686**	72,311	69,846	65,318	60,250
Amount ($ millions)	**6,303.8**	5,843.4	5,318.8	4,687.0	4,066.3
Net portfolio growth (%)	**7.9**	9.9	13.5	15.3	15.0
Percentage of loans receivable in good standing (%)	**94.9**	94.8	94.3	93.1	94.1
New Lending					
Number of loans approved	**14,201**	14,880	15,488	12,910	10,193
Amount of loans approved ($ millions)	**1,611.6**	1,617.4	1,525.2	1,402.9	1,032.7
Average size of loans approved ($)	**113,500**	108,700	98,500	108,700	101,300
Real Property Held at Year End					
Number	**924**	1,516	1,787	1,982	2,171
Acres	**360,284**	604,054	725,703	823,841	901,423
Value ($ millions)	**64.9**	103.4	123.5	139.6	153.5

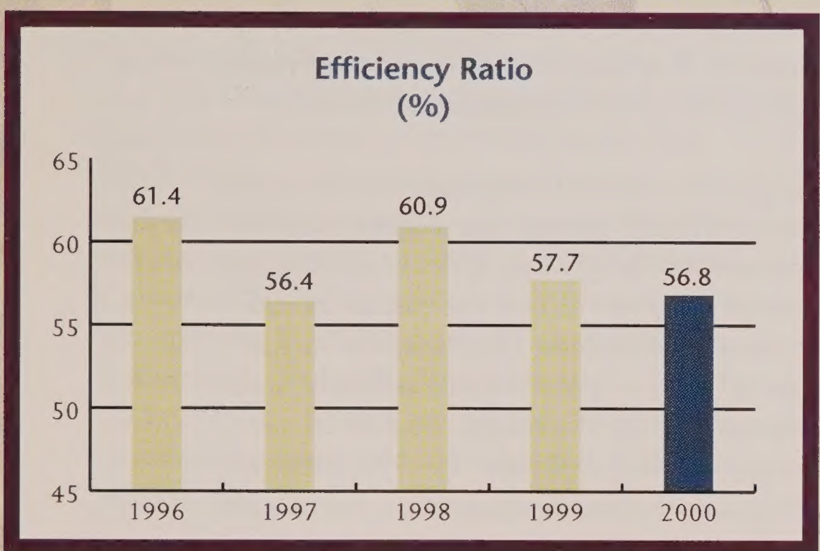
Financial	2000	1999	1998	1997	1996
Revenues and Expenses ($ millions)					
Net interest income	**154.4**	146.3	134.1	141.7	105.2
Provision for credit losses	**52.7**	33.2	18.7	24.0	12.1
Net lease and real estate income	**23.0**	14.7	13.0	7.1	11.3
Other income	**6.4**	7.1	8.8	5.8	4.2
Administration expenses	**90.8**	90.1	89.4	83.4	66.6
Income taxes	**1.9**	2.2	6.2	6.6	1.6
Net income for the year	**38.4**	42.6	41.6	40.6	40.4
Financial Position ($ millions)					
Total assets	**6,570.7**	6,125.1	5,706.2	5,022.4	4,371.4
Total liabilities	**5,943.5**	5,533.2	5,156.9	4,564.7	3,951.6
Equity	**627.2**	591.9	549.3	457.7	419.8



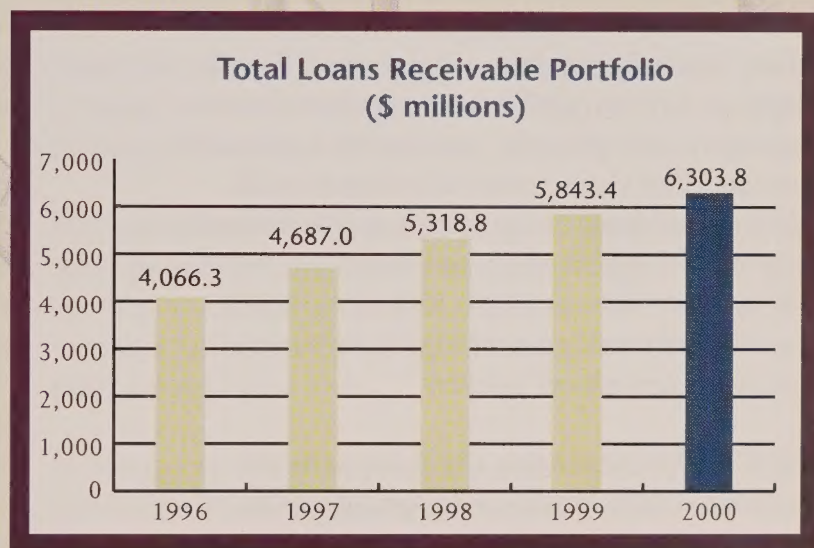
Net Income down 9.9%



Net Interest Income up 5.6%



Efficiency Ratio improved 1.6%, showing increased efficiency



7th consecutive year of growth with growth rate of 7.9% in 1999-2000

As a sovereign borrower, FCC maintains an AAA credit rating.

Message from the President

At Farm Credit Corporation, we share our customers' passion for agriculture and their commitment to its success. This is our raison d'être and what unites us from coast to coast.

In agriculture, success starts with an idea – from cultivating a new crop variety to focusing on emerging niche markets and having the vision to process production locally to add value closer to home. Our customers are these innovators.

Our customers wear many hats and work in as many areas of agriculture as exist across Canada. They are farmers, agribusiness operators, business managers, entrepreneurs, community leaders and parents. One characteristic is common to all: their commitment to agriculture and to the rural way of life. With stamina and discipline, they pursue their ideas through challenging times, continuously seeking new ways to thrive in a changing agricultural industry.

Farm Credit Corporation (FCC) supports this commitment to excellence in agriculture. In 1999, FCC celebrated 40 years of serving agriculture and rural Canada. Through four decades of change, growth and commodity cycles, we transformed with our customers – providing financing services and specialized expertise to several generations of producers.

Today, we have grown to be Canada's largest agricultural term lender, offering a range of flexible financing solutions to primary producers and small to medium-sized agribusiness. Everything we do reflects our vision – to lead the way in agricultural financing – from working with customers and establishing strategic partnerships to setting the Corporation's direction and giving back to the communities we serve.

FCC's growth is directly attributable to our vibrant customer-oriented culture, our singular focus on agriculture and the growing agricultural economy. This emphasis is not lost on our customers and agricultural stakeholders. They have told us that "we get it": our employees listen and understand agriculture's unique challenges. And when our customers succeed, so do we. In 1999-2000, we experienced our seventh consecutive year of solid financial results and the growth of our loan portfolio to $6.3 billion, as of March 31, 2000.

We listen to customers first, then provide customized solutions

We're in this business for the long term. We stay committed to the industry when times are tough and help it innovate and grow when opportunity is abundant. Canadian agriculture is undergoing significant change – with everything from bold new production techniques, increased marketing sophistication and competitive global markets.

In 1999, we witnessed a downturn in cereal grains and hogs. As in the past, we took a "let's talk" approach. Our Account Managers consulted one-on-one with many of our customers and developed solutions suitable to individual needs. We have received positive feedback from these customers, as well as from farm and commodity groups regarding our flexible, responsible approach to financing.

Our focus on customers in need has not been at the expense of those who were successful in 1999. Although certain sectors are experiencing difficulties, others are seeing tremendous growth. FCC is working in all sectors to help our customers succeed.

Partnerships are key

Rural Canada has a long tradition of building alliances to achieve common goals. FCC maintains partnerships with other financial institutions, credit unions, federal Crowns and Canadian agricultural organizations to the benefit of customers.

This year, we entered into one such alliance that expands the financial choices available to the agricultural community. In February 2000, FCC and CULEASE Financial Services™ launched a new lease-based financing option available through FCC's National Dealer Equipment Program, initially in Western Canada. The service has been expanded to Ontario and will be available across Canada. CULEASE Financial Services is owned by Co-operative Trust Company of Canada and managed by the Credit Union Central of Saskatchewan. Leasing can make good business sense to customers who are interested in this option.

Agriculture is all our people want to do

In order to contribute successfully to the agricultural industry, we must retain and hire the best staff available. Specialized expertise is our greatest strength. We derive this strength from the uniquely talented individuals who we are privileged to work with. Many of our employees have roots in agriculture and they have experienced the challenges and opportunities that face our customers. They have a vested interest in the enhancement of rural Canada.

That's why we continue to invest in our employees. We promote training and development that not only deepens professional expertise but also helps our employees focus on designing products, services and innovative solutions to benefit our producer and agribusiness customers.

Serving our customers in the future

As we examine the trends impacting agriculture, we are challenged to develop financial solutions that will work in the future. FCC must anticipate the needs of the agricultural industry before that future arrives. We are committed to leveraging our expertise by consulting with stakeholders to design solutions that meet this industry's unique needs and that help our customers succeed. This is a fundamental component of how we run our business. As the industry undergoes further transformation, we can't wait for our customers to come to us – we will go to them with the innovative financial solutions they require.

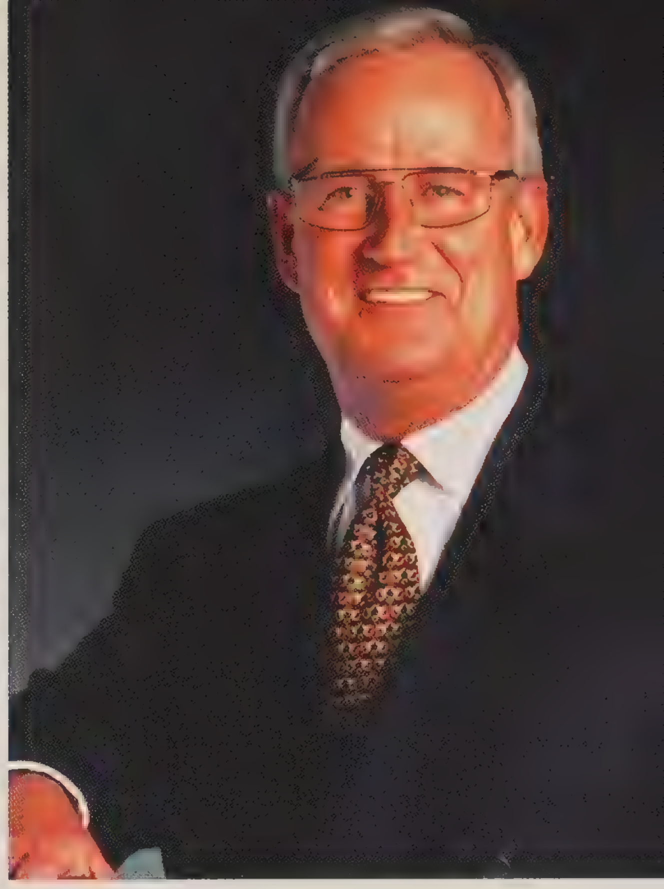
FCC continues to evolve and to serve Canadian agriculture by striving to keep one step ahead of our customers' needs. After all, if we're to be visionary leaders in agricultural financing, we must see the future now.

In that future, we will continue to innovate and provide the Canadian agricultural industry with the service, expertise and understanding that is our hallmark. Agriculture. It's all we do.™

John Ryan

John J. Ryan
President and Chief Executive Officer

Message from the Chair



We measure success by the impact we have on our customers and the communities we serve.

Far beyond ledgers and financial transactions, FCC nurtures a corporate culture that supports creativity, excellence and a commitment to give back to our communities. This is demonstrated in everything we do, from listening to a customer's business needs to working with local not-for-profit groups.

In 1999-2000, FCC successfully introduced a number of new initiatives designed to further the success of the Canadian agricultural industry. FCC demonstrated its support of the development of Canadian agriculture by sponsoring Excellence 2000 in February – a symposium hosted by the Canadian Farm Business Management Council. This ground-breaking symposium provided farm and agribusiness managers a forum to discuss innovative ideas and share industry expertise with their Canadian peers and international experts.

FCC believes strongly that employee excellence and exceptional service to our customers are inextricably linked. Therefore, in fiscal 1999-2000, the Board approved a new employee incentive-based compensation program. We also approved the decision to withdraw from the federal government pension plan and the creation of Solstice, a new pension plan exclusively for FCC employees.

Our commitment to community permeates our business. Both the Board and the Corporation's management consider the needs of our stakeholders in our decision-making process. We pursue our goals by integrating economic, environmental and social growth opportunities into our day-to-day business practices and long-term strategies. Community involvement is a key expression of the value we place on corporate social responsibility. We demonstrate this through our membership in the Imagine group of Caring Companies, contributing one per cent of pre-tax income to charitable and not-for-profit organizations.

At a national level, we helped disabled farmers address the challenges they face in running successful agricultural operations. We supported National Farm Safety Week in co-operation with the Canadian Federation of Agriculture and the Canadian Coalition for Agricultural Safety and Rural Health. FCC also worked with the Safe Drinking Water Foundation to highlight the importance of the integrity of water quality in rural communities.

We are dedicated to agriculture for the long term. With this in mind, we have pursued partnerships with key organizations that will help develop the future leaders of agriculture. Last year, we continued our partnerships with the Canadian Young Farmers Forum and the Canadian 4-H Council.

While we are pleased to be in a position to donate dollars to such organizations, it is our employees who bring our community involvement to life. Behind every successful partnership and project, at both the national and local level, are committed and caring FCC employees. Thanks to them, FCC's 1999 nationwide United Way campaign achieved a corporate record of $91,000.

FCC's Board of Directors is well recognized for their commitment to agriculture and community. In the past year, we bid farewell to two Board members who made important contributions to FCC during their tenure.

All of us at FCC were delighted when Lois Hole was named a member of the Order of Canada and subsequently appointed Lieutenant-Governor of Alberta. Mrs. Hole resigned from the Board in February 2000 to take on her new responsibilities.

Our Board also bid farewell to Peter Rampton, whose term expired in April 1999. A member of the Board since 1995, Mr. Rampton's contributions to the Audit and Human Resources Committees were significant and we wish him all the best. We also take this opportunity to welcome Maurice Kraut, who was appointed to the Board in June 1999. Mr. Kraut brings a wealth of agricultural experience to the Board.

We recognize that the Corporation's focus on our customer is born out of our employees' fundamental passion for agriculture, a passion we share.

Respectfully submitted on behalf of the Board of Directors.

Donald W. Black
Chair

FCC's Board of Directors

1999-2000

FCC's Board of Directors draws on considerable agricultural experience and business expertise to provide sound guidance to the Corporation. The 12 Directors represent Canada from coast to coast, with most coming from farming backgrounds or businesses that serve agriculture.

(left to right) Rashpal Dhillon, Marilyn Marie Scott, John J. Ryan, Germain Simard, Lois Hole, Warren Ellis, Eleanor M. Hart, Donald W. Black, Marie-Andrée Mallette, Edward W. Clark, Rosemary Davis, Maurice Kraut.

Message from the Minister

Canadian agriculture is at a crossroads. The industry faces challenges ranging from increased global competition and volatile commodity markets to a maturing rural population. Canada's primary producers and agribusinesses are making business decisions today that will define the future landscape of the agricultural industry and rural Canada.

The Government of Canada is working hand-in-hand with an industry that, true to its co-operative and entrepreneurial roots, is creating viable, long-term opportunities from these challenges. By diversifying and identifying new international markets, the industry is introducing the world to "made-in-Canada" quality.

I am proud to say that Farm Credit Corporation is a valued partner in this industry. FCC is pursuing a vision – to lead the way in agricultural financing. I am confident that FCC will realize this vision with the commitment of its Board of Directors and the dedication of employees across Canada. Completely focused on agriculture, FCC is helping primary producers and agribusiness operators develop and expand innovative, viable enterprises that will benefit agriculture and enhance rural Canada.

The Honourable Lyle Vanclief
Minister of Agriculture and Agri-Food

FCC Director Lois Hole recognized for outstanding contributions

It's not often that an individual receives not one, but two national honours from the Prime Minister in a single year. However, Lois Hole, a Director on FCC's Board from 1995 until this past February, is no ordinary individual.

Last fall, Prime Minister Jean Chrétien placed the first call to Mrs. Hole to inform her she had been appointed a member of the Order of Canada for her lifetime of contribution to agriculture, community and Canadian culture. A few months later, in February, she received the second call asking her to accept the appointment as Lieutenant-Governor of Alberta.

Upon accepting her new duties, Mrs. Hole was obliged to resign from all other positions, including FCC's Board of Directors. We at FCC are grateful for her five years of unwavering commitment to the vision of the Corporation in serving Canadian producers and to the welfare of all employees and customers.

"In her five years as an FCC Director, Lois repeatedly demonstrated her dedication to improving Canadian agriculture. Her leadership and experience have been valuable assets for FCC and all our staff," said Donald W. Black, Chair of FCC's Board. "She always encouraged the Corporation's efforts to promote excellence in customer service through leadership development initiatives and innovative compensation for staff members."

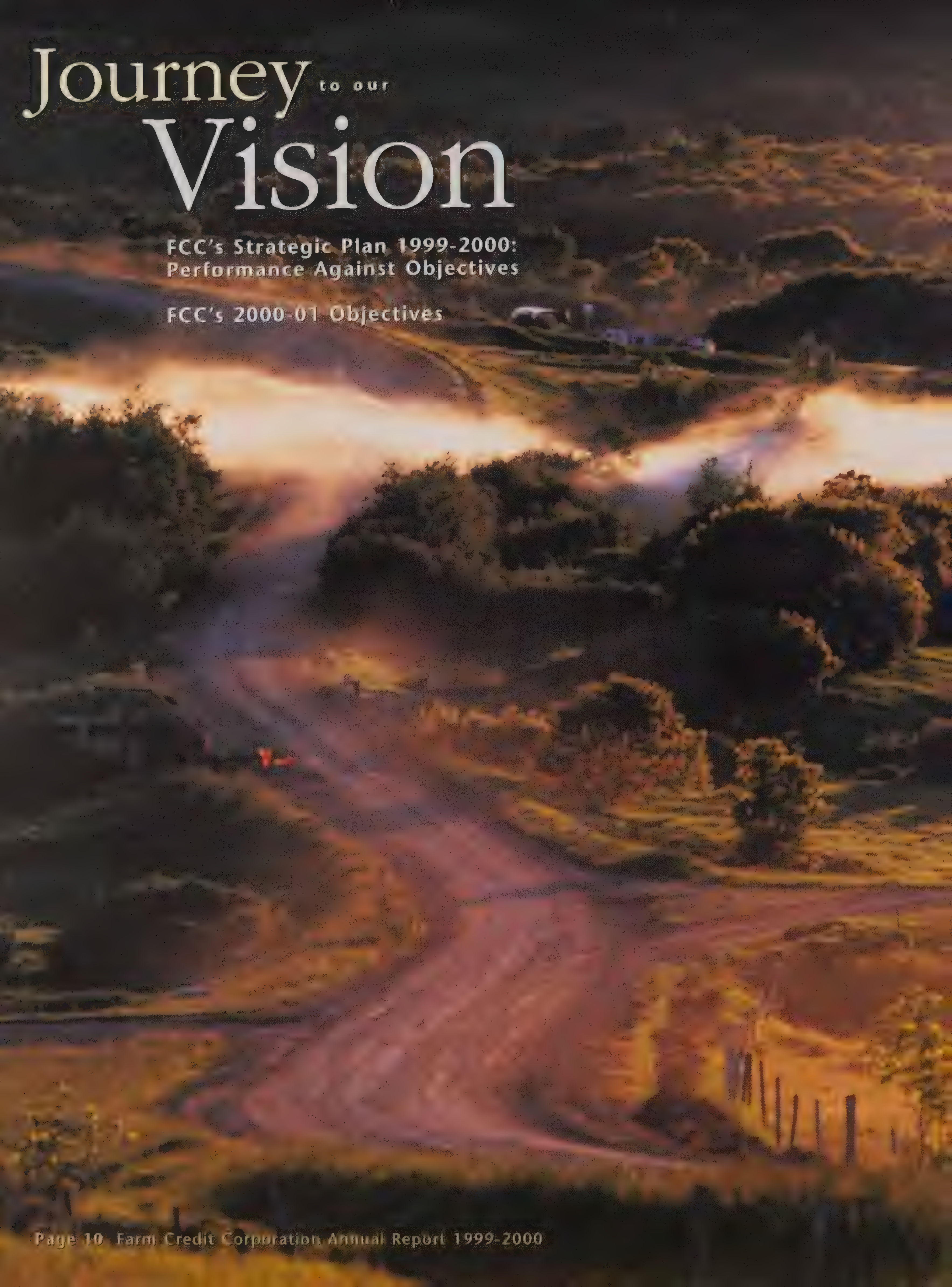
Mrs. Hole's contributions have touched many areas. She was the 16th Chancellor of the University of Alberta and is a renowned author of several gardening books. She and her husband, Ted, are co-founders of Hole's Greenhouses and Gardens Ltd. in St. Albert, Alberta, a 40-year-old operation that is one of the biggest retail garden centres and greenhouses in Western Canada.

FCC employees wish Mrs. Hole all the best in her new responsibilities as Lieutenant-Governor and believe her contribution to culture and community in Alberta will build on her already impressive record of accomplishment.

Journey to our Vision

FCC's Strategic Plan 1999-2000: Performance Against Objectives

FCC's 2000-01 Objectives



Customer Loyalty and Market Presence

STRATEGIC INITIATIVES 1999-2000

To meet the evolving needs and challenges of the agricultural industry, FCC will seek out new services, new delivery channels and new markets.

- Offer customers innovative products and services to grow our support of the agricultural industry, resulting in $1.0 billion in new loan disbursements to primary producers
- Develop specific agribusiness strategies to support the growth and diversification of our customers, resulting in $262 million in new agribusiness loan disbursements.
- Establish financially viable strategic alliances to strengthen FCC's product and service offering, thereby ensuring that farmers have access to the broadest possible range of financial services
- Develop and implement a Customer Relationship Management (CRM) system that enhances service delivery and customer satisfaction
- Develop products and services to meet increasing customer demand for complementary financial services.

1999-2000 *RESULTS*

Innovative solutions support growth

- FCC disbursed $1.3 billion in new lending to primary producers
- In February, FCC introduced a capital leasing product in partnership with CULEASE Financial Services and the credit union system, which offers customers a lease financing option for the purchase of equipment and portable buildings
- New seven and 10-year mortgage property loans with 10 per cent prepayment privileges, made available in April 1999, allow customers to lock in their mortgage costs and still make significant yearly supplementary payments against the principal
- Two and four-year term mortgage property loans were offered in April 1999 to provide customers with additional amortization options that better reflect their repayment ability
- Lending through our unique AgriStart™ product line for developing farmers reached $131.1 million since the launch in 1998

Developing specific agribusiness strategies

- New lending to agribusiness totalled $146.2 million, short of the new lending target of $262 million due to FCC's cautious approach to entering a relatively new sector. However, long-term growth prospects remain strong
- FCC's new agribusiness strategy focuses on the specific financial needs and growth opportunities in this sector

Financing through strategic alliances

- Total new lending through our strategic alliances is $190.6 million
- In October 1999, FCC introduced a term loan, with terms matching the time livestock is in the feedlot, through its feeder finance alliances. This product will help the feeding industry remain competitive in the global marketplace

Enhancing customer relationships

- A new Customer Relationship Management (CRM) framework will help integrate major corporate initiatives to enhance FCC's relationship with customers

OBJECTIVES 2000-01

Create solutions for customer success.

Goals and measures

1. Grow support for primary production and agribusiness through increased market presence and continued customer relationship building by:
   - disbursing $1.2 billion to primary production
   - achieving $230 million in disbursements to agribusiness
   - implementing the Customer Relationship Management strategy by March 31, 2001
   - establishing Customer Loyalty Index and FCC Brand Awareness benchmarks by March 31, 2001
2. Enhance existing and develop new channels for service delivery with:
   - $105 million in disbursements to agribusiness via strategic alliances
   - $27 million in disbursements through the National Dealer Equipment Financing Program
   - developing the corporate service delivery channel strategy by January 1, 2001 for implementation in 2001-02
   - implementing an e-business strategy by March 31, 2001
3. Anticipate customer needs and respond with:
   - two new complementary products/services
   - five new interest-based solutions

Human Resources and Organization

STRATEGIC INITIATIVES 1999-2000

Create a work environment which will attract the best people who will, in turn, provide excellent service to FCC customers.

- Recruit and develop the highest calibre employees whose industry knowledge will continue to differentiate FCC as a leader in agricultural financial services. The goal: that 90 per cent of new hires successfully pass probation
- Maximize customer service while improving employee productivity through a work environment that fosters innovation and knowledge and focuses on the key fundamentals of trust, diversity, job satisfaction and work-life balance. Success will be measured through FCC's annual employee satisfaction survey and a voluntary staff turnover rate of less than 10 per cent.
- Assist employees to develop their careers through learning opportunities and career planning. FCC will invest 3.5 per cent of the salary budget in training.

1999-2000 *RESULTS*

Retaining and attracting high calibre employees

- FCC developed new pension and compensation plans to help the Corporation retain and attract employees who have the agricultural expertise our customers require.
- The percentage of successful hires over the past year is 97 per cent.

Improve productivity through a work environment that fosters innovation and knowledge

- In order to better recognize the diversity of its workforce, FCC formed a National Diversity Advisory Committee to ensure consideration of employment equity in new policies and programs. In addition, diversity awareness training was provided to all managers and executives at FCC
- The voluntary staff turnover rate at year end was 10.5 per cent
- The results of the 1999 employee satisfaction survey outlined where progress has been noted in organizational efficiency and identified key areas for improvement, to which staff action groups have proposed solutions

Assisting in career development

- FCC introduced a Leadership Development Program and offered career planning workshops to reinforce employee and management accountability in career development

Providing learning opportunities

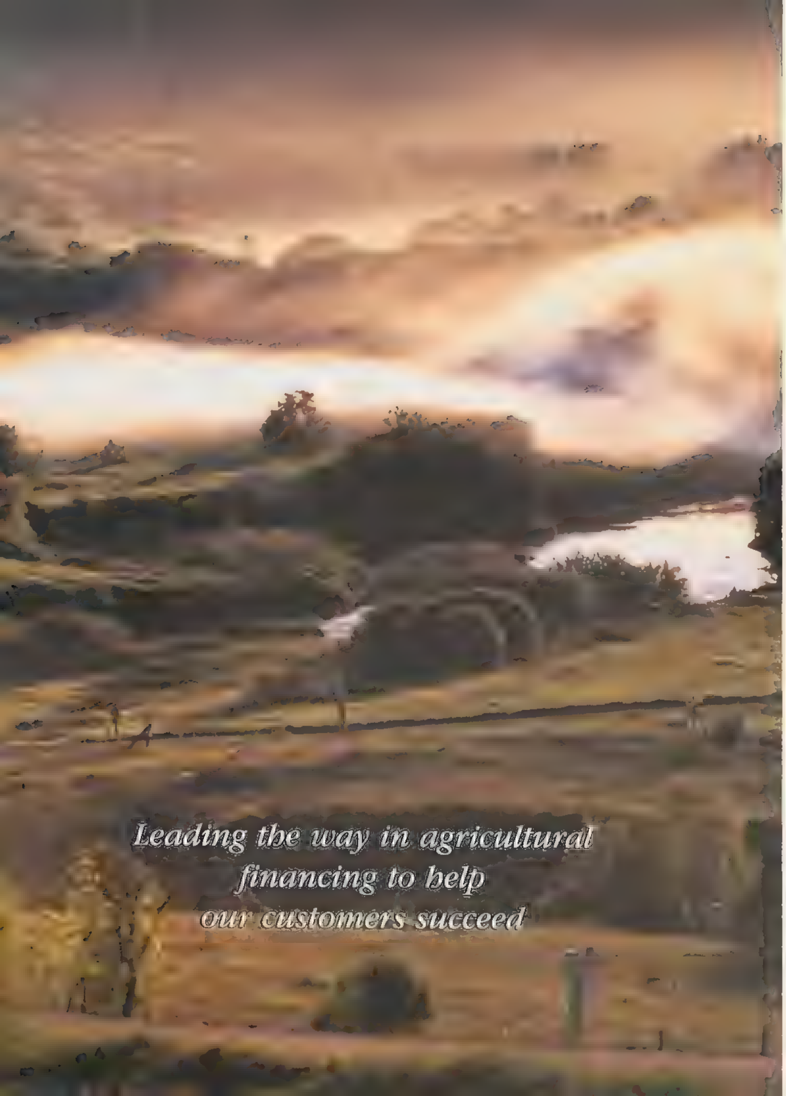
- FCC invested 5.5 per cent of the annual salary budget in training costs
- All managers, including the Senior Management Team, completed leadership training.
- FCC implemented a new three-level Credit Certification program to provide lending staff with the skills and knowledge they need to be effective in their jobs
- All field staff received Managing Local Markets training which provides the tools they need to transform customer and market information into improved customer service

OBJECTIVES 2000-01

Unique people leading our success.

Goals and measures

1. Inspire innovation by encouraging individual leadership and recognizing contributions.
   - Innovative ideas generated through staff with realized savings or demonstrated efficiencies
   - Employee participation in designing processes which lead to a 30 per cent efficiency gain
2. Improve factors impacting employee satisfaction.
   - Improve the annual employee satisfaction survey results
   - Voluntary turnover rate of less than 10 per cent
   - Fully meet linguistic obligations to staff as defined by the *Official Languages Act*
3. Develop expertise by supporting a learning environment.
   - Invest 3.5 per cent of salary budget in training and development



Process Effectiveness and Quality Improvemen

STRATEGIC INITIATIVES 1999-2000

Continuously improve business processes, resulting in higher quality customer service, reduced costs of service delivery and increased productivity.

- Design innovative ways to deliver services internally and externally, enhancing service to customers and resulting in a reduction of the efficiency ratio.
- Develop cost-effective and flexible technology architecture and business applications to enhance customer service and properly support FCC's business needs. Success will be measured by the introduction of service standards for network accessibility and the achievement of 98 per cent system reliability.
- Improve availability and quality of corporate information to enhance customer service delivery. One way this goal will be achieved is by ensuring that 100 per cent of required customer information fields are completed

1999-2000 *RESULTS*

Increasing efficiency for improved service

- A review of field operations, particularly loan origination, resulted in a more customer-driven process with the following benefits
  - more contact alternatives for customers
  - fewer hand-offs – business unit originating the loan responsible for process through to completion
  - simplified approval and appraisal criteria

Final redesigned processes will be implemented during fiscal 2000-01

- Process reviews have resulted in a 30 per cent improvement in processing time at our internal Customer Service Centre
- A review of the alliance loan process is expected to result in a 50 per cent reduction in processing time, thereby increasing value to the customer
- Initiatives in this area have resulted in an improved efficienc ratio of 56.8 per cent, down from the previous year's resul of 57.7 per cent

Financial Success

STRATEGIC INITIATIVES 1999-2000

Focus on long-term financial viability in order to enable FCC to provide superior customer service while offering competitive pricing.

- Realize stable and profitable asset growth with returns in excess of the Government of Canada's cost of capital. Measures for success.
  - Return on Equity (ROE) of 5.7 per cent
  - Return on Assets (ROA) of 0.55 per cent
  - Debt-to-equity ratio of 9.7:1
  - Loan portfolio growth of 6.2 per cent
- Diversify FCC's revenues by identifying alternate revenue sources which would contribute 5 per cent of total new income in 1999-2000
- Maintain and improve corporate margins by setting specific lending margins and sourcing cost effective funding.
- Actively manage portfolio credit and interest rate risks in order to provide sustainable growth, stable earnings and a fair risk return
- Improve the Corporation's ability to assess and manage risk through the complete integration of a risk management framework

1999-2000 *RESULTS*

Maintaining a solid foundation

- Fiscal year-end results show steady growth and strong returns, thereby ensuring financial viability
  - ROE of 6.3 per cent
  - ROA of 0.60 per cent
  - Debt-to-equity ratio of 9.5:1
  - Loan portfolio growth of 7.9 per cent

Generating alternate revenue

- Capital leasing product developed in conjunction with CULEASE Financial Services will provide the Corporation with alternate revenue

Maintaining corporate margins

- Corporate margins were maintained at a level that ensures FCC will be financially viable and able to continue serving agricultural customers into the future
- Borrowing costs for 1999-2000 were seven basis points over the Government of Canada's cost of capital, an improvement of five basis points from the previous year

Flexible technology solutions

- FCC is the first company in Canada to install a new technology application – the network version of the Managing Local Markets software. This system will help FCC provide improved service to customers.
- FCC established new data standards and data recovery procedures to ensure proper maintenance and improve access to all corporate systems.

Improving data quality and delivery

- Customer and loan information was updated and standardized to ensure staff have the information necessary to provide superior customer service.
- FCC's data warehouse standardized reporting of corporate financial information and improved access to and integration of data from various systems.

OBJECTIVES 2000-01

Make it easy for customers to do business with us.

Goals and measures

1. **Continuously improve product and service delivery by:**

- completing loan administration system enhancements by March 31, 2001
- reengineering the loan process by March 31, 2001 to realize an efficiency gain of 30 per cent
- developing the corporate service delivery channel strategy by January 1, 2001 for implementation in 2001-02
- implementing an e-business strategy by March 31, 2001
- introducing corporate-wide service levels and service standards by March 31, 2001
- ensuring equitable service to customers in the language of their choice in all designated offices by March 31, 2001

2. **Transform information into knowledge.**

- Ensure 100 per cent of required customer information fields are complete.
- Develop and approve a corporate knowledge management strategy by March 31, 2001.

Managing risk

- FCC's new Risk Scoring and Pricing System helps evaluate the type and potential impact of risks present in each loan, ensuring that product pricing reflects these risks.
- Work continued on the Integrated Risk Management project:
  - A methodology for assessing and measuring risks was completed.
  - A standard basis for continuous measurement of risk and assessment of risk limits in order to monitor performance was developed.
  - Performance measures and acceptable risk levels for three short-term risks – agribusiness, portfolio and technology – were established.

OBJECTIVES 2000-01

Financial success – the foundation of continued customer support.

Goals and measures

1. **Ensure long-term viability by attaining the following financial targets in 2000-01:**

- Efficiency ratio of 57 per cent
- Return on Equity (ROE) of 6.6 per cent
- Return on Assets (ROA) of 0.63 per cent
- Debt-to-equity ratio of 9.3:1

FCC will also continue to measure risk through the use of a strategic credit risk model in order to ensure a "managed" approach that is neither conservative nor aggressive.

Treasury operations will also be managed within approved risk limits.

Climbing to the top of B.C.'s ice cream mountain

For Coast Mountain Dairy Ltd., finding a niche in the competitive ice cream business didn't take size, it took flexibility and creativity. The Abbotsford ice cream operation began in 1997 with a plan to produce ice cream under contract for Baskin-Robbins. However, the owners soon decided to dream bigger and took the plunge into British Columbian markets with their own ice cream label.

"We've found that as an aggressive and enterprising operation that's smaller and more efficient, we could compete with some of the bigger players in the field," says Ray Feenstra, Coast Mountain's Managing Director. "Some of the bigger companies have left the province and that created a gap that could be filled by a company like us."

Coast Mountain now supplies ice cream to major grocery retailers like Overwaitea and IGA under its Arctic Star brand. In addition, the company markets gourmet Mountain Gold and Mountain Pride brands with flavours such as Espresso Flake, Death by Chocolate, Black Raspberry Cheesecake and Fudgee Turtle.

While the Arctic Star brand makes inroads in B.C. grocery stores, the company continues to produce the world-famous Baskin-Robbins product in 31 flavours.

As part of its role in Baskin-Robbins production, Coast Mountain must adhere to strict production standards. A digital camera is used to document production and the photos are sent to Peterborough, Ontario to ensure standards are being met.

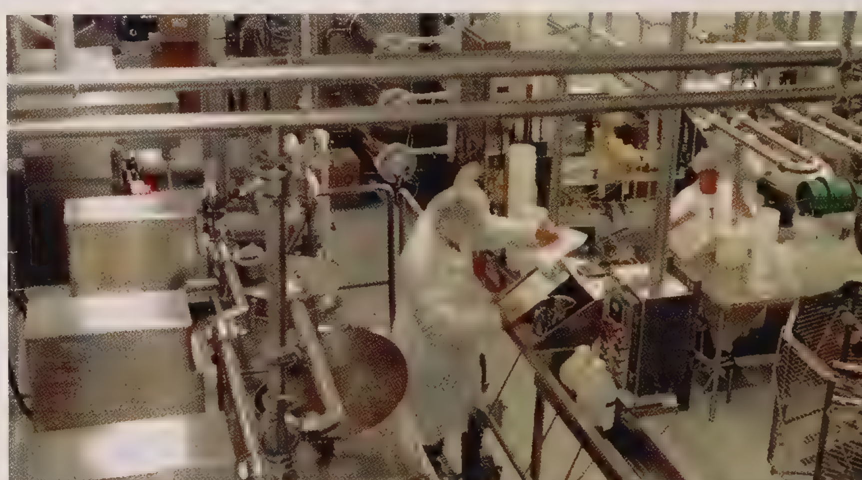
"Every quarter, we send a number of samples to their lab in Los Angeles where they test the ice cream for taste, looks and texture," Feenstra says. "Of all the plants throughout the world, we consistently come out in the top two. We have a marvelous crew here and they produce an excellent product."

Lately, Coast Mountain has been increasing production to meet emerging market needs. With the purchase of new equipment, the dairy has tripled its production capability from six million litres of ice cream per year to about 20 million.

Feenstra says all that expansion has required an increase in financing – and FCC has been a great partner for success. "When we call Ray Wagner, he's always more than willing to come down and see what he can do for us," Feenstra maintains. Today, with three loans on the books, Wagner, their FCC Agribusiness Account Manager, is an important part of Coast Mountain's growth strategy.

Wagner says gaining an understanding of the company's business plan was an important first step in developing a good relationship with Coast Mountain. With more understanding of the owners' objectives, FCC has been able to tailor the right mix of financing solutions and amortization terms to help Coast Mountain gain market share.

"It's not difficult to share in the owners' enthusiasm when you are dealing with a business that manufactures a high quality product and has a clear vision on how to succeed in the marketplace," Wagner explains.



The Coast Mountain Dairy team at the plant in Abbotsford, B.C. (adjacent page left to right):
back row - Mike McDonough, John Bowman, Richard Taekema;
front row - Ben Morthorst, Ray Feenstra, FCC's Ray Wagner, John Flier.

Sowing the seeds of success

With its customer-friendly Web site and stunning array of choices, Wagon Wheel Seed Corporation has been quick to adapt to changing consumer trends. But for owners Warren and Carla Kaeding, it's just another chapter in an ongoing quest to find what's new.

The Kaedings, along with Warren's parents, operate Wagon Wheel in Churchbridge, Saskatchewan, just west of the Manitoba border. While Wagon Wheel is definitely a business, it's also a family-run operation. Warren and Carla, along with Warren's father, Roger, are all shareholders in the business.

Wagon Wheel has expanded into a burgeoning pedigreed seed operation that features more than 50 varieties of grain crops plus specialized types of grass and forage seed.

Warren and Carla's diverse operation helped them win the national 1999 Outstanding Young Farmer Award, along with a couple from Alberta. The Kaedings grow crops on 3,000 acres, contract another 3,000 and have a custom spraying and trucking business. They also market seed throughout Western Canada and into the northern U.S.

Lately, Wagon Wheel has also been expanding into nutraceuticals, like echinacea, to capitalize on the demand for natural dietary supplements and medicinal products. Warren's dad keeps in touch with a contact from a nutraceutical company to get ideas on new crops.

One of Wagon Wheel's latest ventures is in fireweed, a member of the evening primrose family. The perennial flowering plant is one of the first things to grow after a forest fire and has anti-inflammatory properties that make it sought after for lotion and after-shave. "I believe nutraceuticals will have a real place in the future," Warren says.

With continuing expansion and a bevy of unique products, the Kaedings rely on FCC Account Manager Becky Niessen to handle their financing needs. "It's very important to keep communicating with Warren because he's always working on something new," Becky explains. "Fortunately, he tells me well in advance what he's up to." Becky and the Kaedings have a long history of working together. Becky was there when Warren and Carla came in for their first loan in 1995 and also attended university with Warren in the 1980s.

While Wagon Wheel is definitely a business, it's also a family-run operation.

"It's been an excellent experience to work with Warren and Carla," Becky says. "Carla is a certified general accountant by trade so they keep excellent records. When you ask to see their books, they give you books!"

Warren says FCC's flexibility made it one of their first choices when Wagon Wheel began expansion. "We used FCC's term mortgage for our home quarter to buy it from mom and dad. FCC was flexible with the way we wanted to do things and was interested in our business."

One day, Warren would like to see his two sons, Michael and Matthew, take over Wagon Wheel if they're interested.

As for his own future, Warren looks forward to new frontiers for Wagon Wheel. "What are we going to be producing or developing? I honestly don't know, but that's half the fun! That's what gets me up in the morning – to find what's going to be new out there."

The Kaeding family on their farm in Churchbridge, Saskatchewan:

(left to right) Roger Kaeding, FCC Account Manager Becky Niessen, Carla Kaeding and Warren Kaeding.


EXCEL
FRIESEN

Growing greenhouse tomatoes is a family affair

As much as things have changed for Ontario greenhouse owner Tony Mucci, the fundamentals remain the same. Tony and his brother, Gino, and their families have built a family-run success story since opening their first greenhouse in 1967.

Back then, the humble, one-acre greenhouse wasn't much to look at but it gave the two brothers the start they needed. Today, Mucci's Greenhouse in Kingsville is one of the largest tomato operations in the province with nearly 30 acres and 80 employees. Mucci's specializes in two varieties of tomatoes and has recently added its own packing line.

For the two brothers, originally from Italy, the greenhouse represented a lot more stability compared to traditional outdoor farming. "We found greenhouses were the best because it was easier for us to control the variables," Tony explains.

Today, Mucci's resembles an active family reunion as much as a growing business. The brothers work alongside their wives, daughters and sons throughout the year – especially during the 17-hour workdays of summer.

"We're here all the time," Tony says. "We don't go too far. We do everything ourselves so we don't have a foreman or floor managers. You know, if you like your job, you don't care how many hours you put in."

The family's commitment to their business was one of the first things FCC Account Manager Gary Paling noticed when he met the Muccis in 1998. "This greenhouse has been their whole lives," Gary says. "They've invested so much of themselves into making the operation a success. It's just really nice to see a family-oriented business do so well."

Gary believes the frequent stops he makes at Mucci's give him a better appreciation for their vision. "I want to know their operation almost as well as they do. Whatever their vision is, I want to share it with them. Their goals are our goals."

"They've invested so much of themselves into making the operation a success. It's just really nice to see a family-oriented business do so well."

Lately, the Muccis' goals have involved expansion and technological improvements. This focus has paid off – plants that produced about 15 pounds of tomatoes when they first started now produce about 45 pounds.

The Muccis are proud of their operation and, although they're looking to expand, they're not going to tamper with the formula that has been producing top-quality tomatoes. "I think we'll stick with what we know best," Tony maintains. "I've learned a lot in 33 years and I still want to work with my family."

The Mucci family runs one of the largest tomato greenhouse operations in Ontario:

(left to right) Gino Mucci, FCC Account Manager Gary Paling and Tony Mucci.

FCC's
Senior Management Team

Challenge the Status Quo. Lead the Way.

FCC's Senior Management Team (SMT) is charged with executing the corporate strategy required to keep FCC vibrant and relevant for the agricultural industry into the future. Each member brings unique professional expertise and diverse views to the management table and lives by the credo that the Corporation's success depends on our customers' success. They share an unparalleled work ethic and commitment to customers and employees. Every member of this team is focused on maintaining our traditional commitment to agriculture while finding innovative ways to anticipate new customer needs and emerging markets.

From left to right:

André Tétreault, *Vice-President, Corporate Audit and Business Process Reengineering*
Don Stevens, *Vice-President and Treasurer*
Marshall Stachniak, *Vice-President, Farm Financing and Western Operations*
Moyez Somani, *Executive Vice-President and Chief Financial Officer*
Kellie Garrett, *Vice-President, Communications and Public Relations*
Dale Canham, *Vice-President, General Counsel and Corporate Secretary*
Linda Yeo, *Vice-President, Information Technology*
John J. Ryan, *President and Chief Executive Officer*
Janet Wightman, *Vice-President, Agribusiness and Eastern Operations*
Greg Stewart, *Vice-President, Risk Management*
Louise Neveu, *Executive Vice-President and Chief Operating Officer*
Terry Kremeniuk, *Vice-President, Human Resources and Administration*
Shelley Legin, *Vice-President, Marketing and Product Development*

To reach the Corporation's vision of leading the way, SMT members challenge and inspire employees to achieve excellence in customer service delivery and design creative financing solutions.

In the latter part of the year, SMT experienced some changeover. Don Stevens became Vice-President and Treasurer, leaving the Vice-President and Controller's position vacant. André Tétreault was promoted to Vice-President, Corporate Audit, adding Business Process Reengineering (BPR) to his responsibilities. Terry Kremeniuk was appointed Vice-President, Human Resources and Administration, and Janet Wightman was appointed Vice-President, Agribusiness.

The Corporation's success depends on our customers' success.

SMT members provide advice to the Chief Executive Officer on matters pertaining to the Corporation's direction. They are responsible for setting priorities, taking action and managing progress toward the achievement of corporate objectives.

Members are expected to act in good faith, exercise care, skill and diligence in accordance with the *Financial Administration Act*. They adhere to the highest ethical standards of business, professional and personal conduct, including avoidance of conflicts of interest as specified in the Employee Conduct Ethics Policy. At all levels, FCC management is committed to fostering a positive, professional and ethical work environment.

Senior management is compensated in keeping with compensation policies and scales approved by the Board of Directors. In 1999-2000, salary levels for the Chief Executive Officer position ranged from $163,800 to $204,800; Executive Vice-Presidents ranged from $128,260 to $189,340. Compensation for Vice-Presidents ranged from $104,410 to $138,200. All executives are paid within their respective ranges and receive a variable component linked to the performance of the Corporation, the business unit and the individual. Total cash compensation paid to SMT was $2,182,844. The Governor in Council sets salary and benefits of the CEO. All other compensation ranges are set by Corporate Policy and approved by the Board of Directors.

The Executive Committee, a subset of the full SMT, is comprised of the President and Chief Executive Officer; Executive Vice-President and Chief Operating Officer; Executive Vice-President and Chief Financial Officer; Vice-President, Agribusiness and Eastern Operations; Vice-President, Farm Financing and Western Operations; and Vice-President, Human Resources and Administration. Mandated to act on broad strategic direction and establish corporate priorities, the Executive Committee is the principal decision-making authority.

La Ferme Roulante: when dreams come true

Anyone who submits his first business plan at age 12 and owns his own farm by age 19 can say that he knows where he's going. Yves Roux's childhood dream was to become a farmer, and he made that dream come true when he purchased his father's land in 1984. Today, with the addition of 11 adjacent farms, La Ferme Roulante continues to move ahead and expand.

For Yves, his wife Yolande Perreault, their children Maxime, Caroline and Anthony, and the entire team of five workers, La Ferme Roulante, located in Tingwick, Quebec, is an outstanding achievement. Using a strategy based on expansion, knowledge and technology, the couple has transformed the original 100-acre family farm into a large agricultural operation that includes 1,275 acres of cultivated land and a forested area of 225 acres.

They raise 650 head of Holstein cattle, 260 of which are dairy cows (160 in free-stall and 100 in conventional housing) that produce more than 11,500 kilograms of milk annually. Yves credits much of this accomplishment to the combined efforts of his family and staff. "Confidence, communication and respect for one another are key to the success of our team," he explains.

FCC Account Managers Sylvain Morel and Patrice Gagnon have teamed up to provide service to La Ferme Roulante. Sylvain has worked with Yves and Yolande since 1997. "Everyone who has worked with Yolande and Yves will tell you that they are able to push the limits of what is commonly done. They operate a very large and diverse farming operation and yet they do it in an environment-friendly manner, using state-of-the-art technology and storage facilities."

Patrice has worked with Yves and Yolande since 1998. He also speaks highly of their professional relationship: "We share a passion for agriculture and thirst for knowledge. Everything must meet La Ferme Roulante's very high and progressive standards. That is why they are respected within the community as leaders and advisers."

It was no surprise to see Yves, Yolande and the Ferme Roulante team chosen to represent Quebec at the national Outstanding Young Farmers competition in 1999. In Yves' own words, it was a "genuine honour" that confirmed the success of their operation. "It usually takes two generations to achieve something like this. FCC has believed in us since the beginning and thanks to their support, it took us only 15 years to get to where we are. And we are not done yet."

The ultimate goal for Yves and Yolande is to leave behind a valuable and solid legacy for their children. "If our children decide to follow in our footsteps some day, we want to leave them a financially sound business on which to build."

"We share a passion for agriculture and thirst for knowledge."

Yolande Perreault and Yves Roux of La Ferme Roulante in Tingwick, Quebec (pictured on adjacent page) were Quebec's Outstanding Young Farmers for 1999.

FCC Account Managers Sylvain Morel and Patrice Gagnon (left to right, directly across) provide support to a successful team.


Yolande
Ferme Roulan Tingwick
Ferme Roulan Tingwick
Holstein

A new school of thought in aquaculture

For Jail Island Aquaculture, the only thing better than growing fish is a growing business. The St. George, New Brunswick business is riding a rising wave of success in salmon farming.

One of the keys to success is a long-term approach to business, according to Lloyd Purdy, Jail Island's Managing Director. With the three years it takes to raise salmon from hatching to harvesting, Jail Island staff really get to know their fish.

"It always amazes chicken and pig farmers when we tell them how long we spend with our fish," Lloyd says with a laugh. Each fish spends 18 months in Jail Island's hatchery and another 18 months in giant cages in nearby Passamaquoddy Bay.

Jail Island is a medium-sized integrated aquaculture operation with grow sites in the St. Andrews, St. George and Grand Manan areas, a hatchery near Moncton and a processing plant in St. George. It produces about 2,000 tonnes of salmon per year and has been growing steadily. The business came together through the amalgamation of three companies – Jail Island Salmon, Crooked Creek Hatchery and White Head Salmon Farms.

For Lloyd, who originally started with Crooked Creek, the key to expansion has been commitment from all the shareholders. "All the original partners stayed in the business," he explains.

Financing was an important component to the expansion – something Lloyd says he has found difficult in the past when dealing with financial institutions that didn't understand aquaculture.

Fortunately, Lloyd says that's not a problem with Faith Matchett, FCC Account Manager in St. George. "Faith really knows our industry," Lloyd maintains. "She understands our business and we trust her judgment."

With more than 14 years of experience in financing and five years in aquaculture, Faith usually finds a lot to talk about with Lloyd. Lately, they've been working to ensure Jail Island has adequate financing in place to facilitate growth and future capital needs.

Lloyd believes one of the keys to success has been improvement in salmon rearing techniques. "When I started, people grew maybe 1,500 to 2,500 salmon in a wooden cage. Our new cages have a 100-metre circumference and will grow more than 40,000 fish."

Like other Canadian aquaculture companies, Jail Island has been able to carve out a niche in the very competitive U.S. market.

"We succeed in this environment because we're able to deliver a quality product by truck, compared with our international competitors like Chile, Norway and Scotland, which have to deliver by air freight," Lloyd explains. "The short distance gives us superior quality and using trucks gives us a cost advantage."

With one of the largest markets in the world just a few kilometres south, the future looks bright for Jail Island's continued success.

Jail Island Aquaculture harvests top-quality salmon from New Brunswick's cold waters:

(left to right) FCC District Manager Bruno Soucy and Account Manager Faith Matchett, along with Jail Island's Lloyd Purdy and Mark Moore.

FCC Financing Solutions

Products and Services
to meet the changing needs of agriculture

Long Term
FCC provides fixed interest rate terms of up to 20 years and amortization periods between three and 29 years to provide long-term stable options for Canadian farmers. New this year are the 7+10 and 10+10 loans, which offer an annual 10 per cent prepayment of the original loan amount on seven and 10-year fixed terms to be applied directly to the principal not due, with no penalty at any anniversary date.

Personal Property
With no prepayment or processing fees, and monthly, quarterly and semi-annual payment options, the FCC Personal Property Loan is ideal for purchasing livestock, new and used equipment or quota. Terms range between two and seven years, and may be amortized up to 10 years with variable or fixed interest rate options available.

Variable Rate
FCC's Variable Rate Loan is for any agricultural or farm-related purpose, such as land, buildings, quota, equipment or livestock, which is secured by real or personal property. The loan gives the customer the flexibility to decide the right time to lock in for a longer term.

Farmbuilder Construction®
Financing for building projects is easier with this innovative product that provides interim financing for construction. The Farmbuilder Construction Loan applies to any type of construction project eligible for FCC financing. No payments are required during the first year and funds are disbursed as needed during the project.

AgriStart™
This innovative line of loans is designed to help families transfer farming operations from one generation to another as well as assist developing farmers in starting or expanding their operations.

The AgriStart Plan encompasses the following three products:

- The **Family Farm**® Loan enables the developing farmer to finance the purchase of farm assets or transfer shares in a family farm business. Successfully launched in 1993, it has been updated and streamlined to increase flexibility and serve a wider market;
- The **1-2-3 Grow** Loan provides financing with deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years; and
- The **Payday** Loan is designed for individuals with off-farm employment who are interested in starting or expanding a farm business.

Plant Now – Pay Later
FCC understands that expanding a horticultural operation often results in a reduced income stream for the first few years. Customized to suit varying developmental phases, Plant Now – Pay Later Loans meet the needs of our vibrant fruit-growing industry, including soft fruits and berries.

One-Year Convertible
FCC's One-Year Convertible Loan provides the flexibility of short-term lending when rates are dropping, while allowing the borrower to switch, without penalty, to a longer term rate at any time should rates begin to rise.

Other Services

Land Sales and Leasing

FCC's property division, Agri-Land Sales & Leasing®, manages FCC's land holdings and provides farmland management services for owners and tenants.

Feeder Finance

FCC finances feeder livestock through several livestock business alliances as well as numerous feeder finance co-operatives across the country.

National Dealer Equipment Financing

FCC has developed a national network of agricultural equipment dealers. The Corporation works with these dealers to provide a competitive alternative for financing new and used agricultural equipment to Canadian producers and agribusiness operators.

FCC/CULEASE Leasing

FCC and CULEASE Financial Services™ are working together to offer capital lease financing on new or used agricultural equipment through FCC's national dealer equipment network. The product was introduced to Western Canada in February 2000 and Ontario in April, with plans to expand to the rest of Canada in early 2001. This program allows customers access to needed equipment with minimal cash outlay.

Agricultural Value-Added

In co-operation with Western Economic Diversification and CIBC, FCC assists Western Canadian agricultural value-added firms in accessing debt capital.

Emerging Sector Services

Aquaculture

FCC offers financing options that support salmon, fresh water fish or shell fish operations. Our staff has the specialized knowledge to assist with financial requirements for expanding aquaculture businesses, including purchasing barges, cages, nets, smelt, feed, tanks, hatcheries, processing equipment, construction costs, land and site leasing.

Forestry

FCC offers specialized lending services for the forestry industry including loan products for buying forestry equipment, expanding existing forestry operations and buying land.

Investments

FCC Medium and Long-Term Notes

FCC's Medium and Long-Term Notes are issued daily at competitive market interest rates, for maturities ranging from one to 10 years. By purchasing these fully RRSP-eligible notes, investors have the opportunity to invest in Canadian agriculture. The notes are sold by investment dealers who act as agents for FCC. They are issued by FCC to raise capital used to support Canadian agriculture.

Lending a helping hand in Communities

In Davidson, Saskatchewan, Sandra Baldwin teaches a rural babysitting course sponsored in part by FCC.

FCC has a tradition of community commitment among its employees. For 40 years, we have been there through prosperity and hardship to help farmers and their families. Through our community relations activities, we have extended our relationships with farmers and agribusiness operators beyond business transactions. We have established partnerships within the communities we serve based on shared goals of improving quality of life and building a brighter future for those who live there.

As a member of the Canadian Centre for Philanthropy's Imagine program, FCC is committed to donating one per cent of pre-tax income annually to charitable and not-for-profit community organizations. FCC honours this commitment through the donation of financial resources, services and gifts-in-kind. The Corporation adds value to these donations by supporting employee efforts to volunteer their time and energy.

In addition to hundreds of local community initiatives, FCC works in partnership with national organizations dedicated to improving wellness in rural Canada and contributing to the agricultural community. Through our national community relations program, officially introduced in 1998, we have focused on activities that contribute to rural health and help shape the future leaders of agriculture in the decades to come.

For 40 years, we have been there through prosperity and hardship to help farmers and their families.

FCC is proud to support the following initiatives across Canada:

Canadian Young Farmers Forum (CYFF)
This national group of young and developing farmers exchanges ideas and fosters collaboration between young and future farmers of Canada. FCC is proud to support their work through a five-year partnership agreement.

"This partnership allows our members to contribute ideas towards FCC's future lending products," says Sean Gorill, CYFF Chair and a dairy farmer from Bulyea, Saskatchewan. "This input is important because we're FCC's future business partners and tomorrow's leaders in agriculture."

Canadian Coalition for Agricultural Safety and Rural Health (CCASRH)

Established in 1993, CCASRH addresses problems related to rural health including injuries, illness and accidental death among farmers and agricultural workers. FCC sponsors their annual conference and the Rural Kids babysitting course, produced in collaboration with the Canadian Agricultural Safety Program and the Canadian Federation of Agriculture.

"Partnerships are important because part of our mandate is to network and collaborate with other groups from across the country," says Cathy Vanstone, CCASRH Chair and a farmer in Portage la Prairie, Manitoba. "We value FCC's partnership because of their link to farmers across Canada."

Canadian Farmers with Disabilities

This national, not-for-profit organization educates the public about farm safety and offers support to farm families who have experienced disabling accidents. In addition to providing monetary support, FCC worked in partnership with several organizations to produce the Farmer to Farmer educational video, with sales to benefit Farmers with Disabilities of Manitoba.

"FCC has been an excellent partner," says Neil Enns, Coordinator for Farmers with Disabilities of Manitoba and a farmer from Elm Creek. "FCC advertised our video so effectively that we're distributing it from coast to coast."

United Way

FCC's employees have a history of generosity to the United Way. FCC holds a six-week campaign. Employees are invited to make donations through payroll deductions and participate in fundraising activities. In 1999, Corporate Office raised $54,000 for United Way of Regina – the highest total ever – and received the 1999 Spirit Award for Overall Campaign Commitment in Regina. Across the country, FCC raised $91,000 – another record!

Abbotsford staff take turns in the dunk tank to raise funds for the Child Development Centre.

Lending a Helping Hand across Canada in 1999-2000

To FCC, community relations is more than a program, it's people helping people. Our employees have a reputation for reaching out to the communities they serve. The following examples show how employees across the country have gone out of their way to make a difference.

FCC makes a splash at Abbotsford Customer Appreciation Day

In August 1999, FCC customers Grace and Len Krahn, owners of Birchwood Dairy Farms Ltd. in Abbotsford, B.C., hosted FCC's inaugural Abbotsford Customer Appreciation Day. More than 400 local customers, family, media and prize sponsors shared in the day's festivities planned by FCC's Abbotsford field office.

FCC donated $500 in addition to funds raised from the day's activities to the Fraser Valley Child Development Centre, a not-for-profit organization that serves children with disabilities and their families.

Regina FCC team builds a giant egg from cans (above).
Below, Ste-Foy staff serve soup to help a Québec City food bank.

Bringing agriculture into classrooms in Manitoba

Educating children about where their food comes from is the goal of Agriculture in the Classroom – Manitoba (AITC-M). This program provides teachers and their students with learning resources about agriculture that tell the story of how food is produced on the prairies.

In 1999, FCC began sponsoring this program in a new seminar called the Teacher's Summer Institute. Created through a partnership between FCC, AITCM and the University of Manitoba, the seminar will take teachers on farm tours in the summer of 2000.

"We're excited about supporting children through programs such as Agriculture in the Classroom," says Lucie Durand, FCC Office Assistant in Stonewall. "They're the next generation of producers."

Sp"egg"tacular – FCC raises funds for Regina food bank

In December 1999, FCC Corporate office staff participated in CANSTRUCTION, a community fundraising event held to raise funds for the Regina and District Food Bank. Participants were required to build structures completely out of canned and boxed foods. FCC and other community partners built an egg-like structure out of canned meat. In total, the event raised nearly $40,000 for the food bank.

A "souper" event

Every month, Moisson Québec provides food and goods to 25,000 people in the Québec City region. In 1998 alone, 150 local community groups received 1.7 million kilos of goods.

This food bank attempts to increase public awareness of poverty and hunger problems through a special annual event. Held at the Ste-Foy farmers' market, La Soupe Populaire offers bowls of soup to the public for one dollar apiece with proceeds to Moisson Québec.

During the September event, FCC staff from the Ste-Foy office in Quebec donated $5,000 and took turns serving soup prepared by the Loews Le Concorde restaurant, with vegetables donated by producers from the farmers' market.

Lending
a helping han

Road to recovery

P.E.I. woman recovers from farm accident with support of community

On the morning of October 4, 1999, Lisa Getson of Kildare Capes, Prince Edward Island, was only a few days into her job on a potato farm when tragedy struck. She became entangled in a harvester and suffered extensive damage to her right arm, as well as her hip.

Lisa, 24 years old at the time, was sent to a Charlottetown hospital where she received several leg surgeries. She was eventually transferred to Halifax where doctors repaired her arm, which they were forced to amputate just below the elbow. On November 16th, she returned home.

While Lisa was healing, word on the Island quickly spread about her struggle. Marilyn Affleck, Farm Safety and Health Coordinator with the P.E.I. Federation of Agriculture, approached FCC about the young woman's situation, and our Atlantic Canada staff made a $1,000 donation to help cover Lisa's future medical expenses.

"Chances were that she would soon be requiring therapy and rehabilitation involving extensive travelling," says Annette Deveau, Market Analyst in Moncton. "In addition, we hoped that the money could help buy a prosthesis."

Annette also believed that FCC's support should not end with its monetary contribution. She approached Sylbert Rayner, the P.E.I. representative and Board member for Canadian Farmers With Disabilities. Sylbert, a farmer from West Devon, had lost his right arm five years ago in a farming accident similar to Lisa's and offered her moral support and encouragement.

Lisa has not taken FCC's contribution lightly. "It's great," she says. "I think it's amazing that there are people out there like FCC staff who are willing to reach out and help someone in my situation."

FCC employees in Walkerton, Ontario drive for charity.

Great Little Tractor Pull

Great big success!

For the second year in a row, lawn tractors in Ontario have never moved so fast!

The Great Little Tractor Pull, a fundraiser conceived by FCC, took place at the International Plowing Match near Dashwood, Ontario. Ten corporate, one FCC and two charity teams participated in this year's event.

Each team raced a mini-tractor around a track, stopping to load and unload potatoes using only one hand. Trophies were presented to teams with the fastest time, best costumes and the most bloopers.

"The event was fun for all participants and, best of all, raised $10,000 to help out two local charitable organizations – Phoenix of Huron and Rural Response for Healthy Children," says Corlette Elder, Account Manager in Walkerton.

Michael Schell moved from Career Edge to a staff position at FCC.

FCC and Career Edge

Helping young Canadians start their careers

FCC offices across the country have benefited from the enthusiasm and talent of young Career Edge interns in the past few years. FCC has served as a host corporation for Career Edge, a national not-for-profit organization dedicated to providing work experience to young Canadians.

From 1998 to 2000, 39 Career Edge interns worked in FCC offices across the country, learning skills in customer relations, marketing, administration and human resources. Nine interns were offered regular employment at FCC and all of them gained valuable work experience.

"Working with Career Edge really helped me start my career," says Michael Schell, now an Administrative Clerk in FCC's Corporate Office in Regina. "It was a great learning experience to work with people here."

FCC's program is part of the federal government's Public Sector Youth Internship Program.

Celebrating the spirit of agriculture

From palette to palate

In October 1999, FCC, along with 23 community partners, unveiled a 104 by 20 foot mural "Celebrating the Spirit of Canadian Agriculture" on the occasion of the millennium and FCC's 40th anniversary. The mural covers two walls of the Army & Navy department store in downtown Regina.

Saskatchewan artist Germán Jaramillo-Mckenzie, commissioned to paint the mural, wanted to capture the spirit of Canadian agriculture past, present and future, as well as the full spectrum of products that make up this important industry.

"Farm Credit Corporation, our Regina corporate and community partners and Mr. Jaramillo-Mckenzie have come together to create a lasting portrayal of Canadian agriculture. This is truly a community effort," said FCC President and CEO John J. Ryan at the unveiling.

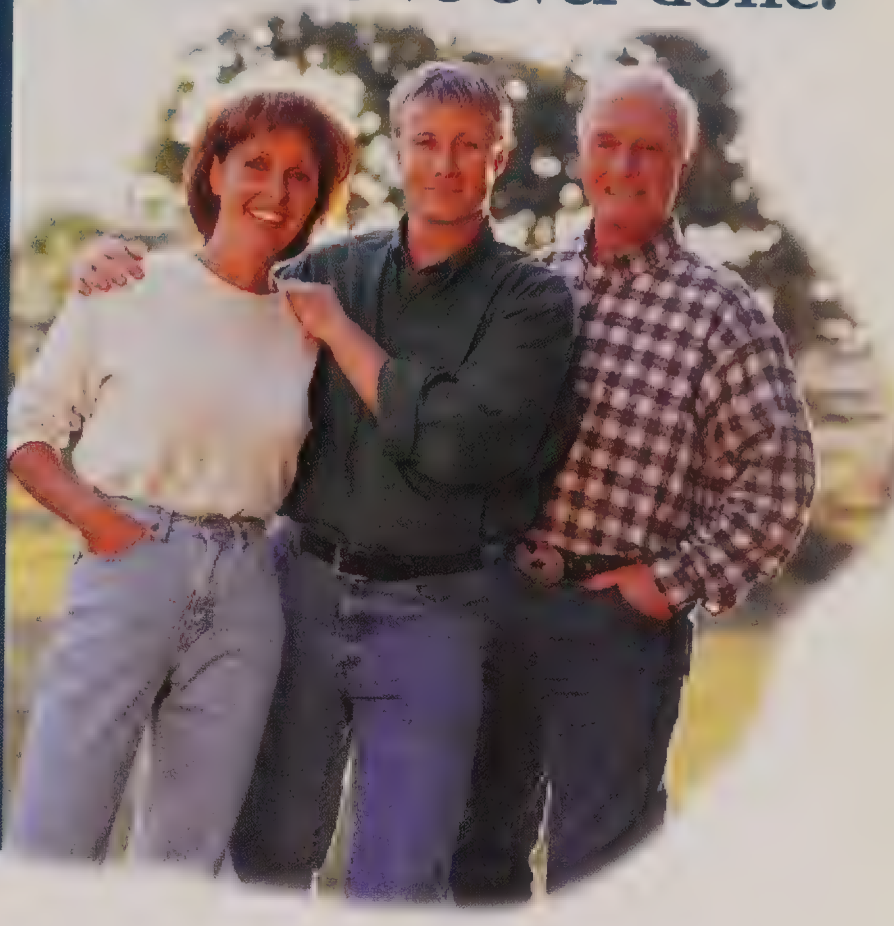
FCC's millennium mural in Regina by artist Germán Jaramillo-Mckenzie.

Agriculture. It's all we've ever done.

40 years of serving Canadian agriculture

From one product at one rate in 1959 to a wide range of customized financial options designed to meet the needs of 43,700 customers – this is the journey Farm Credit Corporation has made in the past 40 years.

During the past four decades, we have listened to our customers and constantly adapted our financial options to fit agriculture's emerging needs. Together, FCC and the agricultural community have faced dramatic transformations in production, technology and markets. However, one thing remains unchanged – our unwavering commitment to customers and 100 per cent focus on agriculture.



Here are some highlights of the changing face of FCC from 1927 to today:

AGRICULTURE 40
FCC • 1959-1999 • SCA

1927 – The Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers.

1942 – The *Veteran's Land Administration Act* (VLA) was introduced to assist veterans of World War II to enter farming, providing the most important source of farm credit at the time.

1959 – The *Farm Credit Act* (FCA) was introduced and established FCC as a Crown corporation, with a statutory interest rate of five per cent and capital of $8 million.

"From the point of view of the long-term welfare of agriculture, I believe this is one of the most important Bills . . . considered by the Canadian parliament." (D. S. Harkness, Minister of Agriculture, on the passing of the FCA.)

1962 – Under the leadership of its first Chairman, Brigadier T.J. Rutherford (1959-1962), the Corporation's reputation for customer service and agricultural expertise began. Staff received intensive training courses in farm management, pre-loan counseling and high-risk loan supervision in order to improve advisory services to borrowers. Farmers received advice regarding equipment and livestock purchases, and farm planning and operations.

"The lending policy and income approach to value are not rule books but guides intended to assist you in the making of your decisions. They can only round out, never replace, the common sense experience and good judgment of the trained Farm Appraiser or Farm Credit Advisor." (Brigadier T.J. Rutherford)

- continued on page 37

AGRICULTURE 40 FCC • 1959-1999 • SCA

"Flexibility is the reason we have stayed with FCC for all of these years. They also have more farming knowledge and are willing to stay with you in the long run."

40th Anniversary Family Profile

A tradition of expertise and knowledge of agriculture

FCC has helped the Compton family of Bangor, Prince Edward Island, through three generations of expansion and growth to their potato operation.

Shortly after Benjamin Compton began farming with his son Henry in 1957, he took out an FCC loan for $2,500 to finance the purchase of the original 150 acres of land. In 1963, Henry built a home for his father with an FCC loan for $5,000. Two years later, Benjamin's other son Ralph became involved in the mixed family farm, completing a three-way partnership. In 1965, they built a potato warehouse on their land and, in 1971, a third son John joined in the operation.

Today Compton Bros. Inc. is run by a third generation – John's two sons, Grant and Stephen, and Henry's son, Donald. Their farming operation involves a three-year rotation of 650 acres of potatoes, 650 acres of barley and 650 acres of hay crop. They employ 17 people who package their tablestock potatoes under the *Island Traditions* label. Their enterprise also packages potatoes from local farmers.

"Flexibility is the reason we have stayed with FCC for all of these years. If you have a couple of poor market years, there's more flexibility with FCC. They also have more farming knowledge and are willing to stay with you in the long run," says Grant Compton.

Through four decades and three generations, the Comptons have grown their potato farming operation with the help of FCC:

(left to right on adjacent page) Grant, Henry, Donald and Stephen Compton.

The Herrmann family of Newbrook, Alberta – growing with FCC since 1959: (left to right) Ronald, Leland, Ilke, Kim, Regan and Tyson.

40th Anniversary Family Profile

A legacy of trust and loyalty

Forty years ago, just after Farm Credit Corporation first opened its doors, Carl and Emma Herrmann borrowed money to establish their farm 105 kilometres northeast of Edmonton, near Newbrook, Alberta.

Four years later, in 1963, Carl's second son Ronald and wife Ilke applied for an FCC mortgage to buy all of the Herrmann's remaining land, totalling four-quarter sections. The young couple also borrowed money from FCC to build a feeding facility to expand their hog operation. At the time, $20,000 was the maximum loan amount, which they borrowed at a fixed rate of five per cent.

"Our entire family finds this way of life a challenge. But it allows us to try new ideas that will hopefully work. Basically, we all like the fact that in farming we can work for ourselves and reap the rewards of our ideas."

With the new facility, the couple increased their swine herd, enabling them to have a faster cash flow from their mixed hog-beef operation. "FCC was easy to deal with and we could get a longer lending term through them. The people at FCC are also very knowledgeable about agriculture and understand our needs," says Ilke.

Today, four decades later, the Herrmanns successfully operate a cow-calf feedlot operation. Ronald and Ilke's son Regan and his wife Kim are involved in the family business and hope to eventually take it over. Regan and Kim are also FCC customers who obtained their first loan in 1988 and bought two quarters of land, including the original quarter section his grandparents owned.

"Our entire family finds this way of life a challenge. But it allows us to try new ideas that will hopefully work. Basically, we all like the fact that in farming we can work for ourselves and reap the rewards of our ideas."

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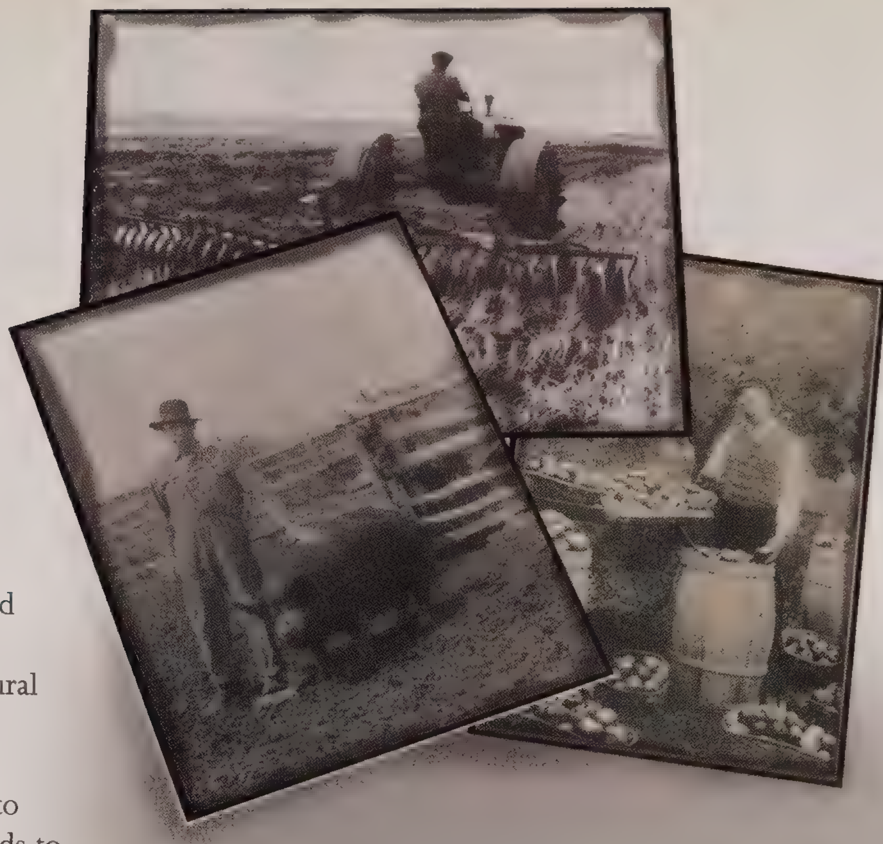


– Highlights *continued from page 33*

1963 – George Owen (1963-1974) was appointed Chairman and continued Rutherford's work to position FCC as the instrument to ensure agricultural success in Canada. FCC's first bilingual Chairman, Mr. Owen served during a period of important changes for FCC, including the first amendments to the FCA. He also initiated the idea of Appeal Boards to allow farmers a second hearing on rejected loan applications.

1965 – As farming expanded, FCC began to lend to a broader range of primary producers including those with off-farm employment or with secondary enterprises on their farms.

1968 – A key amendment to the Act introduced a market rate formula to enable the Corporation to cover the cost of its borrowing. Until that time, the statutory interest rate of five per cent as set out in the Act was in effect.

1970 – The Seventies began with declining land prices and net farm incomes and higher interest rates. To support farmers through this period, FCC requested more amendments to the FCA. Loan limits and capital were increased and the minimum age requirement of 21 years for applicants was dropped.

1976 – FCC's new chairman (1975-1977) Dr. Baldur Kristjanson created the Beginning Farmer Loan Program, aimed at helping borrowers under the age of 35 to phase into farming.

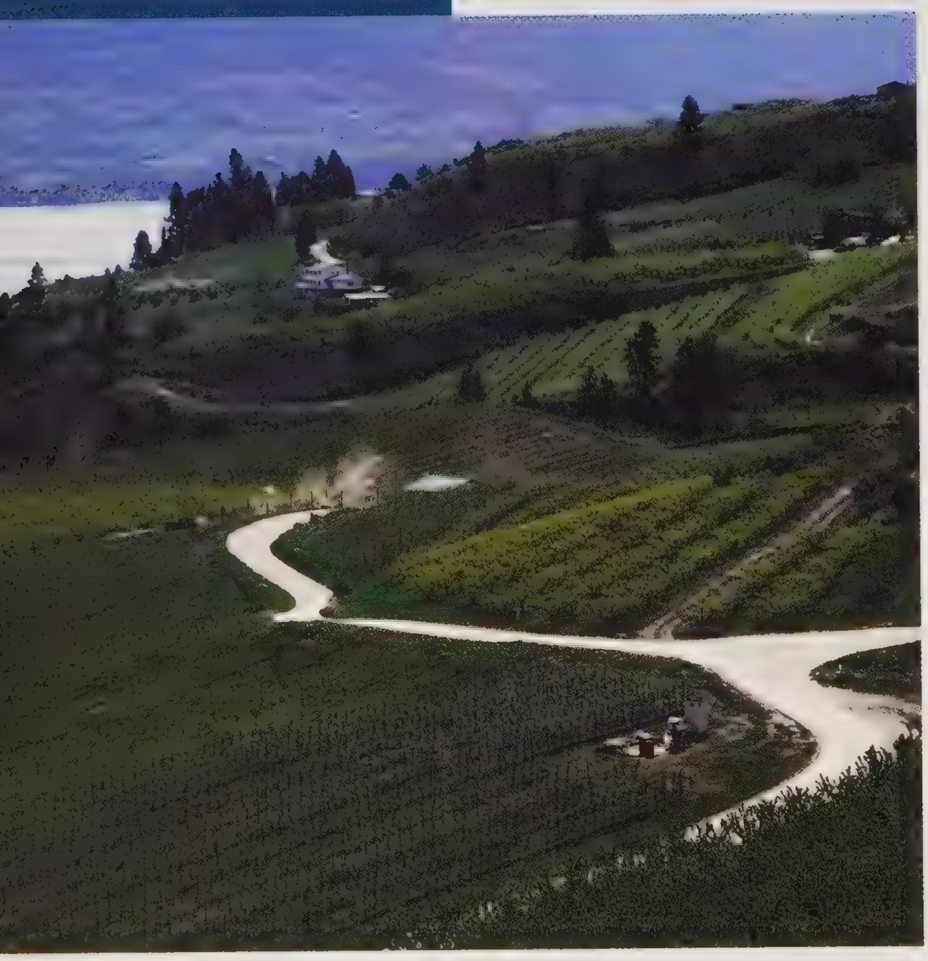
1977 – Under the leadership of Dr. Rolland Poirier (1977-1981), further amendments were made to increase loan limits and streamline administration operations to provide greater flexibility to borrowers. In 1978, for the first time since its inception in 1959, FCC realized a surplus on its operations.

1979 – As FCC celebrated its 20th year of operations, net farm incomes were increasing and the demand for credit growing. The amount of outstanding long-term credit increased eight-fold between 1962 and 1979, making it evident that farmers required increased access to financing capital to help the agricultural industry grow. Short and interim term credit also increased significantly. In 1979, the Corporation's average loan size was $110,298, compared to $7,500 in 1959.

1982 – The Eighties presented many challenges to farmers as particular commodities were hit by drought and volatile export markets. Chairman Eiliv H. Anderson (1982-1987) introduced new legislation to allow FCC to borrow funds on the financial markets. This provided FCC with a broader capital base to help finance Canadian farmers.

AGRICULTURE 40

FCC • 1959-1999 • SCA



1985 – FCC played a key role in providing fixed-rate financing to Canadian farmers. Emphasis was placed on the development of lending programs that would reduce farmers' vulnerability to fluctuations in interest rates and changing economic conditions.

1989 – By the end of the decade, the agricultural industry was climbing out of the downturn and was back on the road to financial recovery. Under the leadership of Chairman James J. Hewitt (1987-1994), FCC's financial viability improved.

1992 – C. Gerald Penney (1992-1996) led the Corporation in serving a vibrant agricultural industry. FCC relocated its head office from Ottawa to Regina.

1993 – The 1993 *Farm Credit Corporation Act* (FCCA) provided FCC with increased flexibility to finance diversification, farmer-owned farm-related enterprises and larger-scale farms. The new Act enabled FCC to partner with other financial and agricultural institutions to better serve customers.

1994 – Alliances and partnerships with other government agencies, financial institutions and farm-related organizations offered new opportunities to enhance FCC's product line and services.

1997 – A new President and CEO, John J. Ryan, was appointed. Under his leadership, FCC established a new vision to be a leader in agricultural financing. This has led to customized financing packages and the launch of many new and innovative solutions to meet the unique needs of Canadian farmers.

The Dawn of a New Century

We begin this new century with the same focus we began with 40 years ago: 100 per cent focused on agriculture. We're proud of our accomplishments but there is no standing still. We must build on our success and keep moving forward providing the financial options our customers need and want. Ultimately, the success of FCC is determined by the success of our customers, the Canadian farmer and agribusiness operator.

Management Discussion and Analysis

Operating Environment

Grow knowledge. Cultivate markets. Harness technology. Harvest results.

These are the new rules of agriculture in the 21st century where the products of knowledge are just as important as products harvested from the field.

It's a whole different agricultural marketplace than the one that existed when Farm Credit Corporation first opened its doors in 1959. In the past few decades, Canadian agriculture has evolved into a complex industry where farmers and agribusiness operators must combine a passion for agriculture with technical expertise, market savvy and the drive to compete.

New crops and livestock, technological breakthroughs and changing business structures have transformed the industry. The boundaries of traditional agriculture have been redefined by increased diversification and the growth of the agribusiness sector. And the power of the consumer has been felt by all. Their desire for variety, freshness and nutrition is driving growth in key markets.

This is the business environment that our customers live and breathe each day. Producers and agribusiness are being challenged like never before to expand their mindset beyond their own operations to the worlds of international business, finance and commodity markets. They expect their financial partners to facilitate this search for knowledge and expertise. That's why FCC works diligently to keep in tune with the agricultural marketplace – and the shape of the industry today and in the future. Here are some of the key trends our customers faced in 1999-2000:

Producers feel the pull of international markets

Last year sent a clear message on the impact of international commodity markets on the individual Canadian farm. While farmers in many sectors saw an increase in commodity prices, others struggled with record low receipts for their commodities.

Growth and optimism were strong in several sectors. Horticulture, worth more than $3.5 billion in annual sales, continued to expand and the Canadian beef industry sold a record $2.7 billion in exports from January to December 1999. The supply-managed sectors, such as poultry and dairy, also benefited from steady prices. On the other hand, grain producers found themselves at the bottom of the international commodity price cycle while hog producers were in the first stages of recovery.

The intense public attention focused on the agricultural downturn in these sectors reminded Canadians about agriculture's important role in the national economy and our everyday lives. The agri-food industry contributes 8.4 per cent of the country's gross domestic product and employs two million Canadians.

Reaching our export potential

In 1999, Canadian farmers and agribusiness operators sold $22 billion worth of goods in the international marketplace. Canada's target for 2005 is $40 billion, as set by the Canadian Agri-Food Marketing Council (CAMC). Reaching this target will require a substantial investment in capital. In fact, according to CAMC, the industry must double investment in the primary sector and triple it in the processing sector in order to reach this export target.

FCC plans to partner with producers and others in the agricultural and financial industries to help reach this goal.

Impact of demographics on the family farm

Demographic trends will change the face of agriculture. About half of Canadian family farms are expected to change hands over the next decade. The new generation will directly influence the future of agriculture in Canada with its knowledge and vision.

To successfully transfer the family farm, Canadian producers are looking for new financial options and services. The challenge is to provide sufficient retirement income to the previous generation without over-burdening new producers as they take over the reins of the family operation.

The continued success of FCC's AgriStart product line indicates that we have found a unique way to provide young producers with the financial options they need to take over and expand the family farm.

Expanding across the agricultural value chain

The links in the agri-food chain grew even stronger and more integrated in 1999-2000. Supplier, producer and processor worked together to build infrastructure, extend market reach and share risk and profit. This trend is expected to continue throughout the new decade.

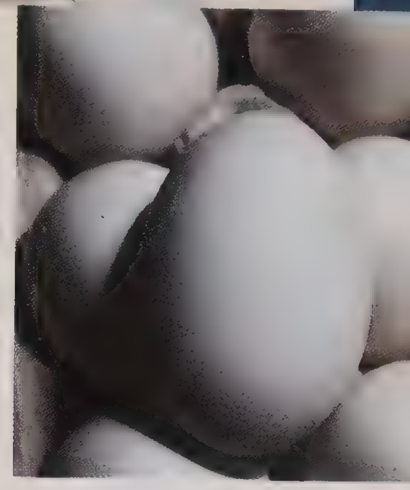
While the agribusiness industry is consolidating at an international level, niche market opportunities are opening for rural communities across Canada. More producers and businesses are partnering to launch agribusiness enterprises on the input and output sides of primary production. The result will be more jobs and economic growth in rural communities. On the prairies, food industry employment grew by 14 per cent from 1986 to 1996 in rural communities, according to an Agriculture and Agri-Food Canada study.

Agribusiness enterprises typically need large amounts of startup capital. To share the risk and build a larger capital base, many producers are joining forces to start co-operative ventures, including new generation co-operatives or other alliance partnerships.

FCC has provided financing to agribusiness operators since 1996. Through partnerships and alliances with other financial institutions and agricultural organizations, we are expanding access to capital to help finance agribusiness growth.

Financing the future

Globalization and changing technology have impacted the financial services industry as much as agriculture. Insurance and mutual fund companies, investment banks and lease financing firms are now part of the industry. As well, an increasing number of equipment dealers and agricultural suppliers are offering financing to producers.



The financial services industry is exploring new services, partnerships and delivery channels. Canadians have the option of negotiating a mortgage or buying stocks on the Internet. At the beginning of 2000, 57 per cent of rural Canadians were online, compared to 34 per cent two years ago. Soon, most producers will be surfing for service on the Net.

What is the impact on FCC customers? More primary producers and agribusiness operators will seek a variety of financial options to fit their business needs. They will source financing through a variety of channels including lender alliances, equity capital providers or share offerings. Much of their research and even some transactions will be done through the Internet.

FCC will continue to anticipate customer needs in financing solutions and delivery channels. In some cases, we will seek out alliance partners in order to lead the way in offering new services, such as our alliance with CULEASE Financial Services to offer lease financing. At the same time, we will maintain our commitment to rural Canada by offering face-to-face service through our network of offices in 100 rural communities.

A whole new world

Today's agricultural producers and agribusiness operators need every tool at their disposal to make the business decisions necessary to achieve their future goals. A complex marketplace requires complex solutions, including financial ones.

FCC employees will continue to keep their eyes trained on innovations and new trends in agriculture with one goal in mind: helping customers convert knowledge to business success. We look forward to providing fresh financial solutions to help existing customers compete in a fast-paced international market, just as we look forward to serving the needs of a new generation of agricultural entrepreneurs who will lead us into the 21st century.

Financial Performance

Key Financial Results

$ millions	2000	1999
Total loans receivable	**6,303.8**	5,843.4
Portfolio growth rate	**7.9 %**	9.9 %
Loan approvals	**1,611.6**	1,617.4
Loan renewal rate	**94 %**	96 %
Arrears	**35.1**	31.8
Net interest income	**154.4**	146.3
Net interest margin	**2.37 %**	2.42 %
Administration expenses	**90.8**	90.1
Net income	**38.4**	42.6
Efficiency ratio	**56.8 %**	57.7 %
Return on equity	**6.3 %**	7.5 %
Return on assets	**0.60 %**	0.72 %
Debt-to-equity	**9.5:1**	9.3:1

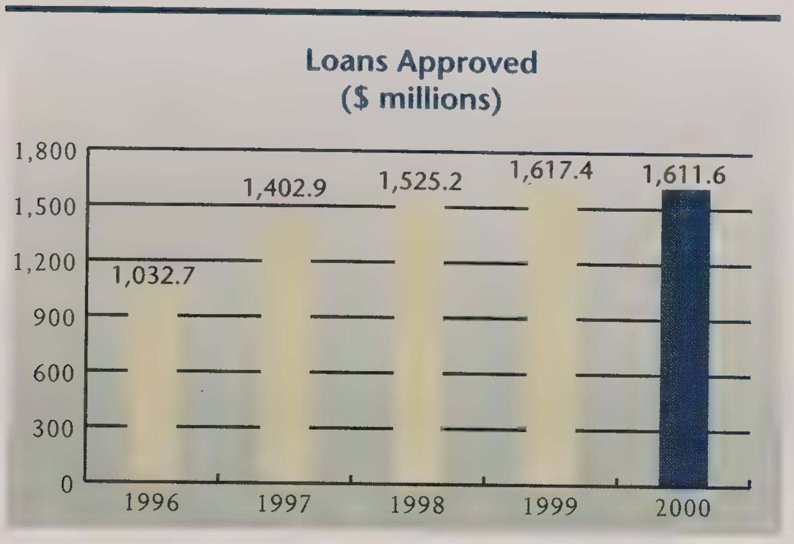
1999-2000 Highlights

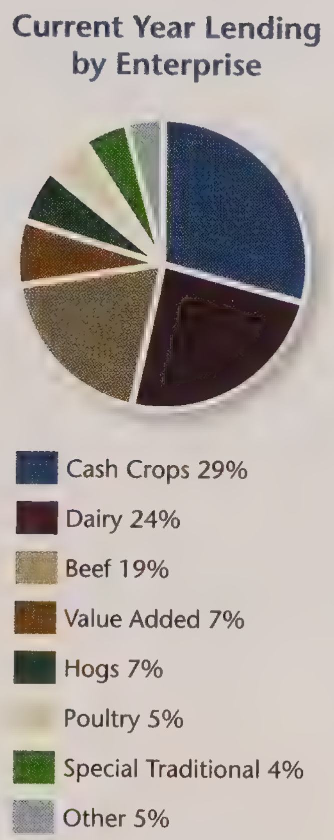
- 1999-2000 was the seventh consecutive year of portfolio growth, with the total loans receivable balance up $460.4 million or 7.9 per cent.
- Net interest margin was 2.37 per cent, slightly lower than last year's margin of 2.42 per cent.
- Administration expenses of $90.8 million were consistent with last year's total of $90.1 million. The efficiency ratio of 56.8 per cent was an improvement over the previous year's results of 57.7 per cent.
- Net income at March 31, 2000 was $38.4 million, down from $42.6 million in the previous year.
- Return on equity was 6.3 per cent, a decrease from the 7.5 per cent recorded the previous year.
- The debt-to-equity ratio of 9.5:1 was a slight increase from the previous year's 9.3:1 ratio.

Geographic Distribution – Loans Receivable Portfolio

	2000		1999	
	Number of Loans	**Amount ($ millions)**	**Number of Loans**	**Amount ($ millions)**
British Columbia	**1,926**	**$ 280.8**	1,877	$ 250.1
Alberta	**10,265**	**978.0**	9,327	860.6
Saskatchewan	**24,205**	**1,286.1**	23,620	1,250.4
Manitoba	**7,539**	**587.5**	7,895	549.9
Ontario	**17,247**	**1,913.0**	17,220	1,753.7
Quebec	**8,368**	**848.2**	8,378	810.4
New Brunswick	**1,729**	**161.7**	1,774	150.1
Nova Scotia	**1,012**	**105.6**	863	87.1
Prince Edward Island	**1,170**	**114.6**	1,116	104.3
Newfoundland	**225**	**28.3**	241	26.8
National	**73,686**	**6,303.8**	72,311	5,843.4
Allowance for credit losses		**249.7**		214.2
Loans receivable, net of allowance for credit losses	**73,686**	**$ 6,054.1**	72,311	$ 5,629.2

At March 31, 2000, the Corporation's total loans receivable portfolio was comprised of approximately 43,700 customers for a total of $6,303.8 million, exceeding the previous year balance of $5,843.4 million. This represents a growth rate of 7.9 per cent, compared to the previous year's growth rate of 9.9 per cent.





Special Traditional: includes bee-keeping, fur-bearing animals, Pregnant Mare Urine (P.M.U.), horses, vermiculture and aquaculture

Other: includes sheep, maple syrup, mixed enterprises and other income sources

Lending Activity

Lending volume in 1999-2000 remained stable, with 14,201 new loan applications approved in the amount of $1.6 billion compared to 14,880 loans and $1.6 billion respectively in 1998-99. The average loan size increased to $113,500 from $108,700 in 1998-99.

Primary Production

Primary production is defined as farming that produces raw commodities, e.g. crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock.

Lending volume in primary production continued to account for over 90 per cent of FCC's loan approvals. The five major enterprises within primary production are cash crops, dairy, beef, hogs and poultry. Of these, lending volume increased in dairy and beef and decreased in the other three enterprises compared to the previous year.

A total of 13,985 loans for $1.5 billion were approved for primary production in 1999-2000 (10,747 loans in direct lending for $1.3 billion and 3,238 loans through alliances for $190.6 million). This compares to 14,693 loans approved for $1.5 billion in the previous year (11,676 loans were made directly to primary production for $1.3 billion and 3,017 loans amounting to $174.1 million were made through alliances).

Agribusiness

Agribusiness includes businesses that produce, transport, store, distribute, process or add value upstream or downstream from primary production.

As more Canadian producers continue to expand into value-added production, growth in agribusiness enterprises is occurring in several key sectors. These include fruit, vegetable, specialty crop and dairy processing, grain handling and transportation, seed, feed and fertilizer suppliers and emerging sectors such as organics and nutraceuticals. Growth in agribusiness resulted in the Corporation providing more financing solutions during the year to meet the evolving needs of these customers.

In 1999-2000, 216 agribusiness loans totaling $146.2 million were approved, compared to 187 loans and $151.9 million in the previous year.

While the number of agribusiness loans increased in the current year, the average loan size decreased to $676,900 from $812,300 in 1998-99.

Alliances

Alliances are relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services to primary producers and agribusiness.

In addition to partnerships with customers, FCC maintains alliances with equipment dealers, livestock brokers and input suppliers, as well as financial institutions, to offer more extensive services to customers. A new alliance with CULEASE Financial Services, launched in February 2000, allows FCC to provide a lease financing option to customers.

Current year lending through alliances accounted for 3,238 loans in the amount of $190.6 million, compared to previous year totals of 3,017 loans and $174.1 million. Virtually all alliance lending relates to primary production.

Outlook 2001: *While some sectors of the agricultural industry are performing well, others continue to experience low commodity prices and increased costs. Because of this, Farm Credit Corporation is cautiously optimistic, anticipating slower portfolio growth in 2000-01 than the trend noted in the past five years.*

Net Income

Net income for the year ended March 31, 2000, was $38.4 million, a decrease from $42.6 million in the previous year. This decrease is largely attributable to an increase in the provision for credit losses, which more than offsets a combined increase of $16.4 million in net interest and net lease and real estate income.

Net Interest Income and Margin

Net interest income is the difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings. Net interest margin is net interest income expressed as a percentage of average total assets.

Net interest income was up slightly this year to $154.4 million from $146.3 million in the prior year. This increase is primarily attributable to portfolio growth of $460.4 million during the year.

At March 31, 2000, the net interest margin was 2.37 per cent compared to 2.42 per cent in the previous year. This decrease is mainly due to rising impaired loan balances.

Net Interest Income and Margin

$ millions	2000	1999
Interest income		
Loans receivable	$ 470.2	$ 442.3
Investments	25.3	25.9
	495.5	468.2
Interest expense		
Short-term debt	58.4	50.0
Long-term debt	282.7	271.9
	341.1	321.9
Net interest income	**$ 154.4**	$ 146.3
Average total assets	$ 6,513.5	$ 6,039.1
Net interest margin	**2.37 %**	2.42 %
Year-over-year change in net interest income due to:		
Increase in volume	$ 14.2	$ 20.1
Decrease in margins	(6.1)	(7.9)
	$ 8.1	$ 12.2

Provision for Credit Losses

The provision for credit losses is a charge to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management (described further in note 2(c) of the financial statements).

The provision for credit losses in fiscal 1999-2000 was $52.7 million, up from the $33.2 million recorded the previous year. Increases in impaired loan balances, portfolio size, loan write-offs and the proportion of loans in sectors experiencing difficulties also influence the level of the provision for the year.

Outlook 2001: *Moderate net interest income growth is expected in 2000-01 reflecting anticipated slower portfolio growth. Although provisions for credit losses are expected to decline, depressed commodity prices in certain sectors may adversely affect customer repayment capacity.*

Net Lease and Real Estate Income

Net lease and real estate income includes revenue related to leases and sales of property, less related operating and interest expenses.

Net lease and real estate income was $23.0 million in 1999-2000 compared to $14.7 million in the previous year. This increase is a result of properties being sold as leases expired and represents recovery of substantial write-downs incurred in previous years. Due to the expiration of 68 per cent of Agri-Land's six-year leases during this fiscal year, 39.4 per cent of the balance of land held at the beginning of the year has now been sold.

FCC continues to fulfill its mandate of leasing and eventually returning land to the former owners where feasible. The Corporation transferred 248,772 acres of land totaling $64.8 million to farmers this year, compared to sales of 123,855 acres totaling $32.7 million in 1998-99.

As of March 31, 2000, 55 per cent of FCC-held land was leased, versus 96 per cent in 1998-99. Approximately 99.6 per cent of this land was leased to former owners.

Agri-Land Property Holdings

Total Acres	2000	1999
British Columbia	**433**	433
Alberta	**2,687**	6,193
Saskatchewan	**341,780**	566,762
Manitoba	**12,619**	28,407
Ontario	**1,116**	1,957
Quebec	**1,354**	–
New Brunswick	–	–
Nova Scotia	**295**	302
Newfoundland	–	–
National	**360,284**	604,054

Outlook 2001: *Farm Credit Corporation expects to sell most of its property holdings over the next two years. This target is driven by FCC's desire to return real estate to the primary producer as long-term leases expire.*

Other Income

Other income is comprised mainly of appraisal, insurance and other service fees.

In 1999-2000, other income was $6.4 million, slightly lower than last year's result of $7.1 million.

Administration Expenses and Efficiency Ratio

The efficiency ratio is administrative expenses as a percentage of income before recovery on real estate and provision for credit losses.

Administration Expenses and Efficiency Ratio

$ millions	2000	1999
Personnel expenses	**$ 54.7**	$ 54.8
Professional service fees	**6.7**	5.3
Staff development and travel	**8.6**	8.1
Telecommunications	**3.6**	3.4
Facilities and equipment	**16.6**	16.9
Other	**0.6**	1.6
Total administrative expenses	**$ 90.8**	$ 90.1
Efficiency ratio	**56.8 %**	57.7%

Administration expenses were $90.8 million, compared to $90.1 million in fiscal 1998-99. One way FCC evaluates performance is through the use of the efficiency ratio, which represents the expenses incurred to earn one dollar of revenue. A lower ratio indicates improved efficiency. At March 31, 2000, FCC's efficiency ratio was 56.8 per cent, an improvement from last year's ratio of 57.7.

Outlook 2001: *FCC will continue to enhance financial and service delivery options for customers while maintaining an efficiency ratio of 57 percent in 2000-01. This will be achieved through continued process improvement and increased efficiencies.*

Income Taxes

Income taxes represent corporate income taxes under Part I and capital taxes under Part I.3 of the Income Tax Act.

In the current year, income tax expense was $1.9 million, down from $2.2 million in the previous year.

Outlook 2001: *The Corporation will be required to adopt changes in the accounting standards for the recognition, presentation and disclosure of income tax amounts. This change will result in an increase to the Corporation's income tax expense in future years.*

Key Financial Ratios

Return on Equity (ROE)

Return on equity is the ratio of net income to average equity.

FCC manages ROE in order to achieve an appropriate return while taking into consideration the various risks associated with business activities and the Corporation's mission. ROE was 6.3 per cent for the year ending March 31, 2000, compared to 7.5 per cent experienced the year before. This decline is a direct result of an increase in the provision for credit losses recorded by the Corporation.

Return on Assets (ROA)

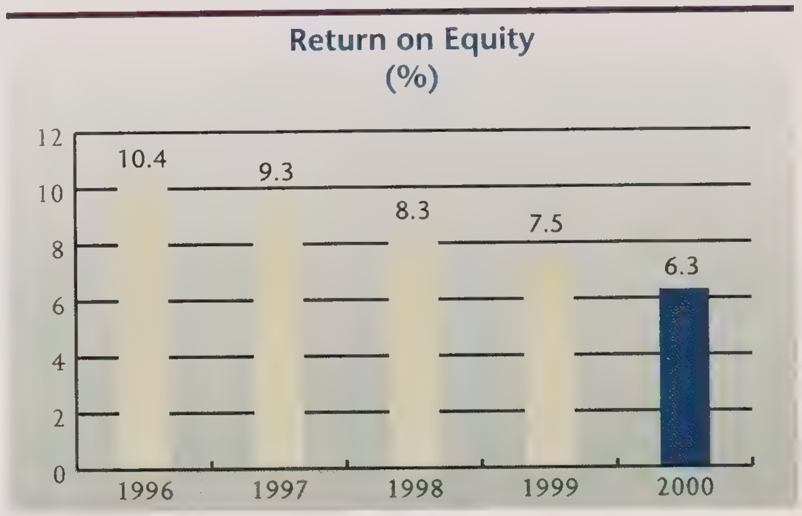
Return on assets is the ratio of net income to average total assets.

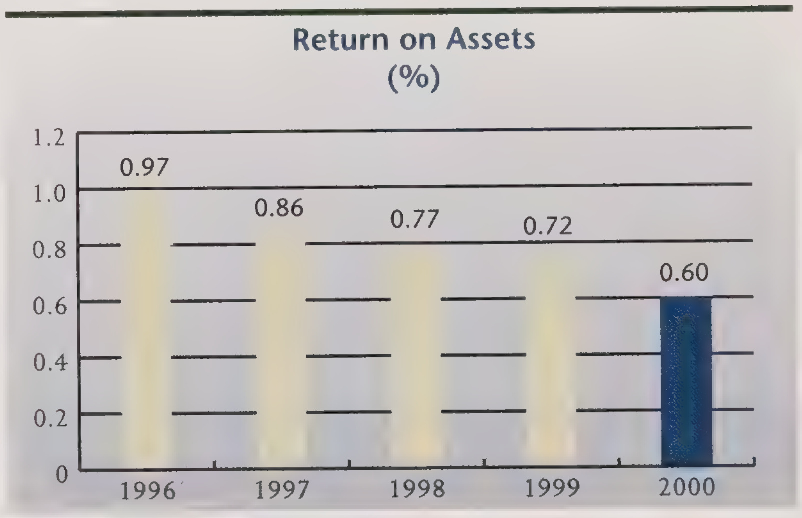
Return on assets was 0.60 per cent, while the previous year's ratio was 0.72 per cent. This year's decline was the result of an increase in the provision for credit losses.

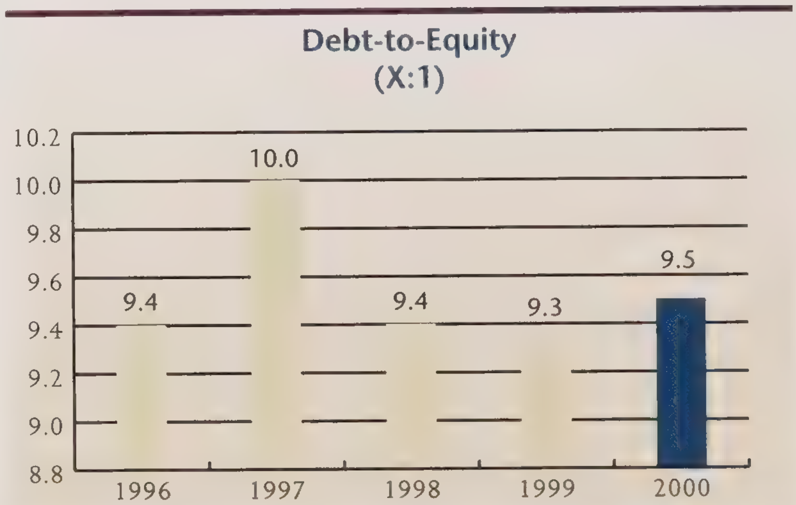
Debt-to-Equity

Debt-to-equity is the ratio of total debt to total equity.

The debt-to-equity ratio was 9.5:1 at March 31, 2000, compared to 9.3:1 the previous year. The increase in debt incurred to support FCC's portfolio growth was greater than the moderate increase in equity. The ratio remains well below the legislated maximum of 12.0:1.







Outlook 2001: *ROE and ROA are expected to improve marginally in 2000-01 as the portfolio grows and the provision for credit losses declines. Debt-to-equity is expected to improve slightly as equity growth proportionately exceeds the growth in debt required to support anticipated slower portfolio growth.*

Risk Management

Sound risk management policies and practices ensure that FCC responds appropriately to challenges in the operating environment. An Integrated Risk Management project was established in 1999-2000 to guide the identification, monitoring and assessment of significant risks that could impact FCC's business objectives. This project will serve as the basis for risk management policies, processes and controls to maximize results and value to both customers and stakeholders.

Inherent in the operation of a financial service institution are significant risks relating to credit, interest rates and liquidity. Responsibility for credit risk rests primarily with the Risk Management division which includes Portfolio Management. Interest rate and liquidity risk management are the responsibility of Treasury. Treasury reports monthly on performance and adherence to risk management directives to the Asset/Liability Committee (ALCO), chaired by the President and CEO, and quarterly to the Board. Portfolio Management also reports monthly to ALCO on risks in the loan portfolio.

Credit Risk

Credit risk is the risk of financial loss occurring as a result of a default on obligations to the Corporation.

With the continued pressure of historically low commodity prices in the grain and oilseed sectors, the level of credit risk in these significant portions of FCC's portfolio is increasing. In contrast, FCC is experiencing an increased demand for financial services from the value-added sector as producers diversify and expand their operations. To continue to ensure FCC's ability to meet the future needs of the agricultural industry, the right people, policies and technology must be in place to properly manage credit risk.

To enhance employee skills in credit risk identification, management and mitigation, FCC introduced a credit certification program for all staff involved in loan sourcing, analysis and approval. Staff who approve complex and large credit submissions received enhanced training and certification delivered by external commercial credit experts to ensure industry best practices are achieved.

A comprehensive credit policy review and update were completed in 1999-2000. This review encompassed all stages of the loan life cycle from inception to account management to retirement and, where appropriate, included separate credit risk policies for FCC's traditional farm finance business versus the agribusiness portfolio.

FCC continues to develop and implement current portfolio risk management techniques. Credit scoring, concentration management modeling and loan pricing practices that ensure proper compensation for estimated credit risk are all integral to FCC's credit risk management. Staff use economic research of trends in each agricultural sector and commodity price forecasts to identify portfolio risk. In addition, FCC enhanced quantitative modeling techniques for estimating loan losses, risk ratings and stress test impacts on portfolio health in the 1999-2000 fiscal year.

Sound credit risk management practices are only one ingredient in the performance of the loan portfolio, which is subject to external influences such as adverse weather, commodity price trends and regulatory changes. Total arrears, defined as principal and interest payments past due, were $35.1 million at March 31, 2000, significantly lower than the estimated $70 million allowed in the corporate plan although up from $31.8 million the year prior. This increase in arrears levels was concentrated in the grain and oilseed sectors mainly in the prairies, where FCC staff worked with customers to help mitigate repayment difficulties with flexible payment schedules or debt restructuring. Nationally, customer repayment performance remained consistent with the favorable results of the previous year.

Outlook 2001: *Farm Credit Corporation will continue to strengthen its credit risk management practices in order to best manage the risks of the portfolio.*

Allowance for Credit Losses

Allowance for credit losses is management's best estimate of credit losses on the loans receivable portfolio (described further in note 2(c) to the financial statements).

The allowance is comprised of:

- A *specific* component, to value impaired loans at the lower of their recorded investment or their estimated realizable amount; and
- A *general* component in respect of loans for which impairment has not been specifically identified.

At March 31, 2000, the allowance for credit losses was $249.7 million (specific – $52.2 million, general – $197.5 million), an increase of $35.6 million or 16.6 per cent from the previous year's $214.2 million (specific – $42.2 million, general – $172.0 million). The increase is attributable to the potential impact on customer repayment capacity due to continued low commodity prices in the grains and oilseeds sectors, a $38.3 million increase in impaired loans, as well as the overall level of portfolio growth.

Arrears as a % of Loans Receivable by Enterprise

	2000		1999	
	Total Loans Receivable ($ millions)	Arrears as a % of Loans Receivable	Total Loans Receivable ($ millions)	Arrears as a % of Loans Receivable
Cash crops	$ 2,623.3	0.8	$ 2,533.7	0.7
Dairy	1,368.5	0.1	1,295.6	0.1
Beef	639.1	0.6	554.5	0.8
Hogs	514.8	0.4	477.0	0.6
Poultry	350.6	0.1	329.8	0.1
Value added	268.3	0.6	191.1	0.5
Special traditional	237.2	1.0	205.5	0.7
Other enterprises	302.0	0.7	256.2	0.7
National	$ 6,303.8	0.6	$ 5,843.4	0.5

Environmental Risk

Awareness of environmental issues such as proper waste management and disposal on farms has increased over the past decade. As a Crown Corporation and a good corporate citizen, FCC is expected to operate within the spirit and intent of the federal government's own environmental policies, such as the Green Plan launched in 1990, by supporting sustainable agriculture and environmental protection.

Ensuring that all of FCC's new real estate secured loans address and mitigate environmental risk remains a high priority. All requests for new mortgage loans must have environmental assessment forms completed prior to approval.

Market Risk Management Framework

FCC manages exposure to market risk (interest rate and foreign exchange risk) with limits developed in consultation with the federal Department of Finance and approved by the Corporation's Board of Directors. Market risk management policies are approved by FCC's Asset/Liability Committee (ALCO) and the Board of Directors. The Treasury division is responsible for implementing market risk management directives.

The Treasury division manages operations using sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division finances the Corporation, ensuring liquidity, and manages market risk exposures.

Liquidity Risk

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The Corporation's objective is to maintain sufficient funds to meet customer and business operational requirements. To manage liquidity risk, FCC maintains a liquid investment portfolio ($364.3 million as at March 31, 2000) and a stable and diversified funding base to raise the funds to meet ongoing business requirements. FCC also has in place the necessary financing lines to cover contingencies.

Funding

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium & Long-Term Note Program (MTN);
- Euro Commercial Paper Program; and
- Euro Medium-Term Note Program (EMTN).

Short-term Funding

As at March 31, 2000, outstanding short-term borrowings were $1.0 billion, compared to $1.1 billion as at March 31, 1999. The decrease is attributable to a smaller portion of short-term debt supporting the liquidity portfolio in 2000.

Medium and Long-term Funding

During 1999-2000, FCC borrowed a total of $1.1 billion in medium and long-term funds, down from $1.5 billion in 1998-99. The decrease is due to lower levels of debt maturing in the year. In 1999-2000, $1.0 billion of MTN's were issued in the domestic bond market using a combination of retail, institutional and structured notes. FCC also issued $100 million in the EMTN market, down from $250 million in 1998-99.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. As a sovereign borrower, FCC's credit ratings are AAA for debt denominated in Canadian dollars and AA+ for foreign currency debt.

Asset/Liability Management

FCC is exposed to interest rate risk (IRR) as a result of a mismatch or gap between assets, liabilities and off-balance-sheet instruments because of different renewal and/or re-pricing dates. Exposure to these risks is monitored and managed to ensure that there will be no material adverse impact on FCC's earnings and capital value.

In order to eliminate foreign exchange risk, all foreign currency borrowings are fully hedged at issuance.

The Treasury division uses derivative financial instruments, primarily swaps and options, to manage interest rate and foreign exchange risk arising from funding activities. The division manages credit risk associated with derivative financial instruments using the 'dollars-at-risk' methodology. Derivative counterparty positions and credit risk exposures are monitored, managed and regularly reported to ALCO and the Board of Directors.

FCC manages IRR exposures with an asset/liability model. The model simulates changes in Net Interest Income (NII) and Market Value Portfolio Equity (MVPE) for changes in the yield curve. Given FCC's interest rate position at March 31, 2000, an immediate two per cent decrease in interest rates across all maturities would reduce NII by $4.4 million, or 2.7 per cent over the next 12 months. Assuming an immediate and sustained two per cent decrease in interest rates, MVPE at March 31, 2000, would have increased by approximately $25.4 million. Both NII and MVPE variances are within limits approved by FCC's Board of Directors.

***Outlook 2001:** FCC will continue to fund the bulk of its requirements in the domestic market.*

Market Sensitivity

$ millions	2% Increase	2% Decrease
Net interest income variability	$ 4.6	$ (4.4)
Economic Value (MVPE) variability	$ (24.0)	$ 25.4

Business Continuity

While not directly linked to the economic or operational environment, threats to business continuity must be addressed as part of the overall risk management strategy.

This past year, in conjunction with the Year 2000 project, FCC reviewed its core business activities to determine the potential impact of a serious disaster and to identify the functions necessary to respond appropriately to the situation. FCC incorporated the resulting response procedures into a business continuity plan which was thoroughly tested by staff. This plan ensures that, in the event of a disaster or other disruptive event, the Corporation's core operations would continue with minimal disruption of service to customers while ensuring that staff are accounted for and protected, and corporate and customer assets are safeguarded. This business continuity plan will be revisited on a regular basis so it remains current and relevant.

Year 2000

In anticipation of the new millennium, FCC developed an action plan to ensure a smooth transition to the Year 2000. Business continuity and operational plans were successfully implemented in advance of December 31, 1999, without service interruption to customers.

Although the Corporation's systems have continued to be operational in 2000, it is too early to conclude that all Year 2000 issues affecting the Corporation, including those related to other parties, have been fully resolved.

Outlook 2000-01

Overall farm income is expected to remain stable in the coming years. However, a modest increase in total farm cash receipts will likely be offset by forecasts of continued lower prices for the grain and oilseed sectors. Realized net income for producers in these sectors will follow a similar trend.

Despite the challenges faced in some sectors, producers and agribusiness are motivated and positioned for growth. As producers prepare to meet the challenges of the next century, key issues are access to capital, lenders who understand and recognize the potential for growth in the agricultural marketplace and an international trading environment that provides fair access to world markets.

In 2000-01, FCC will continue to introduce innovative products and services that meet and exceed the emerging needs of producers and agribusiness. The Corporation will continue to improve processes and increase efficiency. This will free resources and funds to enhance financial and service delivery options for customers.

Because financial viability is the key to FCC's ability to support customers and rural Canada over the long-term, the Corporation will continue to monitor and assess the agricultural and financial environments as well as its own financial performance. For 2000-01, FCC is forecasting net income of $42.6 million – a $4.2 million increase over current year's results. This estimate is based primarily on increased net interest income ($7.4 million) due to portfolio growth, a decrease in provision for credit losses ($12.5 million), an increase in other income ($2.8 million), offset by a decrease in net lease and real estate income ($12.0 million) as a result of reduced property holdings and an increase in administration expenses ($6.2 million). FCC's 100 per cent focus on Canadian agriculture, employees' agricultural expertise and a strong customer-oriented culture will be the drivers of this growth.

FCC SCA
Farm Credit Corporation Société du crédit agricole

Canada

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, a committee which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The Corporation's independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

John J. Ryan

Moyez Somani

John J. Ryan
President and
Chief Executive Officer

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 12, 2000

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 2000 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

L. Denis Desautels

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 12, 2000

Balance Sheet

AS AT MARCH 31

	2000	1999
	(thousands of dollars)	
ASSETS		
Cash and short-term investments (Note 3)	$ 308,768	$ 245,797
Accounts receivable and other accrued assets	74,874	31,760
Long-term investments (Note 4)	55,557	102,713
Loans receivable (Notes 5 and 6)	6,054,099	5,629,202
Real estate acquired in settlement of loans (Note 7)	64,855	103,395
Equipment and leasehold improvements	12,554	12,194
	$ 6,570,707	$ 6,125,061
LIABILITIES		
Accounts payable and accrued liabilities	$ 23,349	$ 21,699
Accrued interest on borrowings	165,966	122,522
	189,315	144,221
Borrowings (Note 8)		
Short-term debt	1,040,139	1,120,318
Long-term debt	4,700,734	4,237,171
	5,740,873	5,357,489
Other liabilities and deferred fees (Note 9)	13,302	31,505
	5,943,490	5,533,215
EQUITY		
Capital (Note 1)	507,725	507,725
Retained earnings	119,492	84,121
	627,217	591,846
	$ 6,570,707	$ 6,125,061

The accompanying notes are an integral part of the financial statements.

Approved:

Donald W. Black
Chair, Board of Directors

Warren Ellis
Chair, Audit Committee

Statement of Operations and Retained Earnings

FOR THE YEARS ENDED MARCH 31

	2000	1999
	(thousands of dollars)	
INTEREST INCOME		
Loans receivable	$ 470,152	$ 442,331
Investment income	25,337	25,845
	495,489	468,176
Interest expense	341,072	321,923
Net interest income	154,417	146,253
Provision for credit losses (Note 6)	52,743	33,220
Net interest income after provision for credit losses	101,674	113,033
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	29,785	23,013
Operating expenses	1,994	2,452
Interest expense	4,804	5,852
Net lease and real estate income	22,987	14,709
OTHER INCOME	6,415	7,176
INCOME BEFORE OTHER EXPENSES	131,076	134,918
OTHER EXPENSES		
Administration expenses	90,779	90,130
Income taxes (Note 10)	1,926	2,229
Other expenses	92,705	92,359
NET INCOME	38,371	42,559
Retained earnings, beginning of year	84,121	41,562
Dividend (Note 1)	(3,000)	–
RETAINED EARNINGS, END OF YEAR	$ 119,492	$ 84,121

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

FOR THE YEARS ENDED MARCH 31

		2000		1999
		(thousands of dollars)		
OPERATING ACTIVITIES				
Net income	$	**38,371**	$	42,559
Items not involving cash				
Provision for credit losses		**52,743**		33,220
Change in accrued interest receivable		**(30,864)**		(10,948)
Change in accrued interest payable		**45,110**		18,938
Other		**15,387**		23,816
Cash provided by operating activities		**120,747**		107,585
INVESTING ACTIVITIES				
Long-term investments		**45,734**		44,948
Loans receivable disbursed		**(1,579,700)**		(1,509,900)
Loans receivable repaid		**1,095,652**		995,459
Change in real estate held		**38,540**		20,086
Other		**(16,032)**		(1,523)
Cash used in investing activities		**(415,806)**		(450,930)
FINANCING ACTIVITIES				
Long-term debt repaid to Canada		**(236,194)**		(436,250)
Long-term debt from capital markets		**1,109,989**		1,520,504
Long-term debt repaid to capital markets		**(431,349)**		(821,058)
Change in short-term debt		**(81,416)**		182,095
Dividend paid		**(3,000)**		–
Change in NISA investments held		**–**		(93,754)
Cash provided by financing activities		**358,030**		351,537
Increase in cash and short-term investments		**62,971**		8,192
Cash and short-term investments, beginning of year		**245,797**		237,605
Cash and short-term investments, end of year	$	**308,768**	$	245,797

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation (the Corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown Corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. Additionally, the Corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

(b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation to eliminate the Corporation's accumulated deficit.

As of March 31, 2000, capital payments received from the Government of Canada amounted to $1,168 million (1999 – $1,168 million). The statutory limit for that same period was $1,175 million (1999 – $1,175 million).

(c) Dividend

On May 26, 1999, the Corporation's Board of Directors declared a dividend in the amount of $3.0 million which was paid on September 30, 1999, to the Corporation's sole shareholder – the Government of Canada.

(d) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total direct and contingent liabilities of the Corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2000, the Corporation's total liabilities were 9.5 times the equity of $627.2 million (1999 – 9.3 times the equity of $591.9 million).

2. Significant accounting policies

(a) Investments

Investments comprise the balance sheet categories of short-term investments and long-term investments. Interest income, amortization of premiums and discounts and write-downs to market value on investments are reported as investment income. Except as noted below for long-term investments acquired to manage funding opportunities in advance of cash requirements, gains and losses on disposal of investments are also reported in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

Long-term investments are securities with terms to original maturity in excess of one year. These investments are acquired primarily for the purposes of asset/liability management and for the management of funding opportunities in advance of cash requirements.

Long-term investments which were acquired for asset/liability management are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. Gains and losses on the disposal of these investments are included in income as a component of investment income.

Long-term investments which were acquired for the management of funding opportunities in advance of cash requirements act as hedges against changes in future borrowing rates. These investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. To estimate the true cost of funding, gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the lives of the related funding instruments.

(b) Loans receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is well secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans.

(c) Allowance for credit losses

The allowance for credit losses represents management's best estimate of credit losses on its loans receivable in light of current conditions. It has a specific and a general component.

Based on a loan-by-loan review, the specific component is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general component, which is prudential in nature, is established in respect of loans for which impairment has not been specifically identified. In establishing the general component of the allowance, management models historic portfolio migration trends and loss percentages and applies them to the year-end loans receivable balances categorized into risk pools. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, economic trends, federal and provincial government programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement.

The allowance is increased by provisions for credit losses and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

(d) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Recoveries arising from the disposal of real estate are recognized when title to the property passes to the purchaser. These recoveries are included as a component of lease and other revenue.

(e) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term

(f) Translation of foreign currencies

Loans receivable/borrowings and interest receivable/payable in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Interest income and expense denominated in foreign currencies are translated into Canadian dollars at the average month-end exchange rates prevailing throughout the year. Exchange gains or losses arising from the translation of foreign denominated debt and interest expense are reported net of the exchange gains and losses on the related currency exchange agreements and are included as a component of interest expense.

(g) Long-term debt

The difference between the ultimate amounts payable (at the initial exchange rates if the long-term debt is denominated in foreign currency) and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Interest settlement amounts for debt with bond index-linked or equity index-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

(h) Derivative financial instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency, interest rate, bond index-linked and equity index-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated as hedges as well as asset/liability contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative financial instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with the accrued interest receivable and payable recorded as a component of accounts receivable and other accrued assets and accounts payable and accrued liabilities respectively.

A premium is paid to purchase an option contract. If the option is exercised, the premium is amortized on a straight-line basis over the life of the underlying instrument and reported as an adjustment to interest expense. If not exercised, the premium is recognized at the time the contract expires and reported as an adjustment to interest expense. Gains realized upon exercising an interest rate option are deferred and amortized to interest expense over the life of the hedged position.

(i) Pension and other post-retirement employee benefits

Employees participate in the *Public Service Superannuation Act* pension plan administered by the Government of Canada. The Corporation matches employee contributions for current or past service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation.

Upon retirement, employees under the age of 65 are entitled to basic life insurance coverage. The Corporation recognizes the premium costs as incurred.

(j) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees or as settlements are reasonably determinable.

(k) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when realized.

3. Cash and short-term investments

	Effective interest rate (%)		2000		1999
			(thousands of dollars)		
Cash		**$**	**19,375**	$	2,606
Short-term investments	5.05 – 5.40		**287,739**		241,562
Accrued interest			**1,654**		1,629
		$	**308,768**	$	245,797

Short-term investments consist of instruments with maturities of less than one year, issued by:				
The Government of Canada, its agencies and Crowns	**$**	**47,890**	$	54,697
Other		**239,849**		186,865
	$	**287,739**	$	241,562

Other investments consist of short-term instruments issued by the governments of the provinces of Canada and short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 2000, the largest total investment in any one institution was $43.6 million (1999 – $37.2 million).

4. Long-term investments

	Effective interest rate (%)		2000		1999
			(thousands of dollars)		
Amounts due within:					
1 – 5 years	4.79	**$**	**50,000**	$	94,215
Unamortized premium and discount			**4,314**		7,029
Accrued interest			**1,243**		1,469
		$	**55,557**	$	102,713

Long-term investments consist entirely of Government of Canada bonds.

5. Loans receivable

	Stated interest rate (%)	2000	1999
		(thousands of dollars)	
Principal amounts due, secured by:			
– mortgages	5.00 – 12.50	$ 5,306,707	$ 4,967,502
– chattels	5.00 – 12.50	721,415	629,519
– notes	5.00 – 12.50	25,087	29,424
		6,053,209	5,626,445
Accrued interest and fees, net of payments held		82,156	86,771
		6,135,365	5,713,216
Recorded investment in impaired loans, secured by:			
– mortgages		156,170	119,743
– chattels		11,377	9,279
– notes		902	1,128
		168,449	130,150
Total loans receivable		6,303,814	5,843,366
Less: Allowance for credit losses (Note 6)		(249,715)	(214,164)
		$ 6,054,099	$ 5,629,202
Principal amounts (excluding impaired loans) due within:			
1 year		$ 1,390,237	$ 1,234,532
1 – 5 years		4,038,768	3,814,871
over 5 years		624,204	577,042
		$ 6,053,209	$ 5,626,445

Management estimates that annually, over the next three years, approximately 8.0% (1999 – approximately 8.0%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2000, $2.4 million (1999 – $2.5 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

6. Allowance for credit losses

		2000		1999
		(thousands of dollars)		
Balance, beginning of year	$	214,164	$	182,700
Write-offs, net of recoveries		(17,192)		(1,756)
Provision for credit losses		52,743		33,220
Balance, end of year	$	249,715	$	214,164
Specific allowance	$	52,215	$	42,164
General allowance		197,500		172,000
Balance, end of year	$	249,715	$	214,164

As at March 31, 2000, the total recorded investment in loans receivable against which a specific allowance has been identified was $168.4 million (1999 – $130.2 million). The general allowance was established against the remaining $6,135.4 million (1999 – $5,713.2 million) investment in loans receivable.

7. Real estate acquired in settlement of loans

		2000		1999
		(thousands of dollars)		
Balance, beginning of year	$	103,395	$	123,481
Acquisitions		2,253		622
Disposals		(40,793)		(20,708)
Balance, end of year	$	64,855	$	103,395
Real estate under long-term lease, maturing:				
within 1 year	$	32,115	$	59,074
from 1 – 2 years		2,863		37,530
from 2 – 3 years		1,107		1,882
from 3 – 4 years		–		792
		36,085		99,278
Real estate held for sale		28,770		4,117
	$	64,855	$	103,395

Real estate represents property acquired in the process of administering loans receivable.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Leases re-price annually.

Included in real estate held for sale is property which, as of March 31, 2000, has been sold on a conditional basis. This property has a recorded value of $17.0 million (1999 – $6.1 million).

		2000		1999
		(thousands of dollars)		
Future expected lease receipts, using current lease rates, due within:				
1 year	$	1,904	$	6,861
1 – 5 years		303		2,250
	$	2,207	$	9,111

8. Borrowings

The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

(a) Short-term debt

Short-term debt consists of promissory notes payable within one year totaling $1,040.1 million (1999 – $1,120.3 million). The effective interest rate on these notes ranges from 4.91% to 5.54% (1999 – 4.71% to 5.20%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 17, 1999, the Corporation entered into a line of credit agreement with a consortium of Canadian chartered banks allowing it access to funds in the amount of $300 million dollars on a revolving basis. Indebtedness under the credit agreement is unsecured. The credit facility matures on December 14, 2000, but is extendable annually at the option of the Corporation. At March 31, 2000, no amounts were outstanding under this agreement.

(b) Long-term debt

	Stated interest rate (%)	2000	1999
		(thousands of dollars)	
Loans from Canada, secured by notes	6.76 – 9.91	$ **804,604**	$ 1,040,798
Loans from capital markets, secured by notes payable in:			
Canadian dollars	nil – 9.00	**3,740,130**	2,959,869
New Zealand dollars ($100,000,000)		**–**	80,504
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange Index	–	**12,000**	12,000
the Euro Top 100 Index	–	**56,000**	56,000
the S&P 500 Composite Stock Price Index	–	**38,000**	38,000
the DS Barra Government Bond Index	–	**50,000**	50,000
		$ **4,700,734**	$ 4,237,171

Loans with index-linked interest payments do not provide periodic interest payments but, upon maturity, provide the purchaser with a single payment based on the change in the underlying equity or bond index. The Corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Long-term debt maturities are as follows:

		2000		1999
		(thousands of dollars)		
Amounts due:				
within 1 year	$	**1,279,186**	$	921,297
from 1 – 2 years		**1,060,127**		1,019,582
from 2 – 3 years		**779,771**		594,673
from 3 – 4 years		**631,052**		652,254
from 4 – 5 years		**421,036**		479,511
over 5 years		**529,562**		569,854
	$	**4,700,734**	$	4,237,171

Included in long-term debt is $391.2 million (1999 – $391.2 million) of loans extendable beyond their original due dates at the Corporation's option.

9. Other liabilities and deferred fees

		2000		1999
		(thousands of dollars)		
Other liabilities and deferred fees consist of:				
Agri-Land investment fund	$	**329**	$	1,960
Downpayments on real estate sales		**4,577**		1,281
Provision for employee termination benefits		**3,990**		6,010
Obligation under capital lease		**–**		827
Net currency swap payable		**165**		14,757
Deferred loan fees		**4,241**		6,670
	$	**13,302**	$	31,505

The Corporation may, through its equity-building lease program, lease real estate acquired in settlement of loans back to the former owner (the lessee). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Agri-Land investment fund. Funds held in the Agri-Land investment fund earn interest at 4.00% per cent (1999 – 4.00%). At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

10. Income taxes

As at March 31, 2000, timing differences of approximately $206.0 million are available to the Corporation as deductions against future tax liabilities (1999 - $232.0 million). These have not been recognized in the financial statements. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $277.0 million (1999 - $277.0 million) and expires on the dates indicated:

	(thousands of dollars)
March 31, 2001	$ 111,000
March 31, 2003	70,000
March 31, 2005	96,000
	$ 277,000

Income taxes payable by the Corporation represent corporate income taxes under Part I and capital taxes under Part I.3 of the *Income Tax Act*. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million and has been reduced by current Part I surtaxes payable.

With the withdrawal from the NISA program in 1999, the Corporation is no longer subject to Part VI tax. Amounts previously paid under the provisions of Part VI tax have been applied against current year Part I taxes payable.

11. Commitments and contingent liabilities

(a) Long-term commitments for leases

Future minimum payments by fiscal year on operating leases for premises, automobiles and computer equipment, with initial non-cancellable lease terms in excess of one year, are due as follows:

	(thousands of dollars)
within 1 year	$ 6,903
from 1 – 2 years	5,350
from 2 – 3 years	2,980
from 3 – 4 years	1,758
from 4 – 5 years	1,060
over 5 years	952
	$ 19,003

(b) Other commitments and contingent liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 2000, the Corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $1.6 million (1999 – $1.1 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its customers.

As at March 31, 2000, loans to farmers and agribusiness approved but undisbursed amounted to $138.1 million (1999 – $185.6 million). These loans were approved at an average interest rate of 8.79% (1999 – 7.68%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 31, 2000.

12. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize a date using "00" as the year 1900 or some other date, rather than the year 2000. This could result in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

Although the change in date has occurred, it is not possible to be certain that all aspects of this issue, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved and that the problems will not adversely affect the Corporation. In addition, the failure of the Corporation's borrowers to fully address the Year 2000 issue may result in increases in impaired loans and provisions for credit losses in future years.

13. Derivative financial instruments

The Corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign currency borrowings. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce the risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. Replacement cost represents the mark to market value of outstanding derivative contracts. A positive replacement cost indicates the Corporation's exposure to counterparty credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality (Aa3 from Moody's or AA- from S&P or better). Additionally, International Swaps and Derivatives Association, Inc. (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2000, was $425.1 million (1999 – $493.4 million) and the largest replacement cost of contracts with any institution as at March 31, 2000, was $9.2 million (1999 – $3.2 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 2000, were as follows:

2000 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
				(thousands of dollars)		
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 90,000	$ 209,000	$ 7,900	$ 306,900	$ (3,706)
Fixed	Floating	322,200	176,000	80,000	578,200	(4,135)
Fixed	Fixed	20,000	40,000	–	60,000	4,194
Floating	Floating	–	–	857	857	20
Equity index-linked	Floating	–	49,000	19,000	68,000	12,343
Equity index-linked	Fixed	38,000	–	–	38,000	(1,822)
Bond index-linked	Floating	50,000	–	–	50,000	(1,709)
Forward rate agreements		–	–	–	–	–
Purchased options		10,000	–	–	10,000	51
		530,200	474,000	107,757	1,111,957	5,236
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	51,000	5,000	–	56,000	(674)
CDN fixed	USD floating	–	2,250	–	2,250	(61)
CDN fixed	GBP fixed	29,860	–	–	29,860	36
NZD fixed	CDN fixed	–	–	–	–	–
		80,860	7,250	–	88,110	(699)
Total		$ 611,060	$ 481,250	$ 107,757	$ 1,200,067	$ 4,537

1999 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Replacement cost
				(thousands of dollars)		
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 111,200	$ 284,000	$ –	$ 395,200	$ (11,405)
Fixed	Floating	236,200	212,000	–	448,200	3,470
Fixed	Fixed	45,000	40,000	–	85,000	3,294
Floating	Floating	–	–	857	857	35
Equity index-linked	Floating	–	49,000	19,000	68,000	592
Equity index-linked	Fixed	–	38,000	–	38,000	(3,247)
Bond index-linked	Floating	–	50,000	–	50,000	(321)
Forward rate agreements		150,000	–	–	150,000	(5)
Purchased options		170,000	10,000	–	180,000	528
		712,400	683,000	19,857	1,415,257	(7,059)
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	–	5,000	–	5,000	(161)
CDN fixed	USD floating	–	2,250	–	2,250	(13)
CDN fixed	GBP fixed	–	–	–	–	–
NZD fixed	CDN fixed	95,000	–	–	95,000	(10,529)
		95,000	7,250	–	102,250	(10,703)
Total		$ 807,400	$ 690,250	$ 19,857	$ 1,517,507	$ (17,762)

Included in derivative financial instruments is $391.2 million (1999 – 391.2 million) of interest rate swap and option contracts extendable beyond their original due dates.

14. Interest rate risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate financial instruments and on the fair value of fixed-rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the Corporation's financial instruments by the earlier of their contractual re-pricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

Floating-rate loans receivable are linked to the bank prime rate and re-price with changes in the rate.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

2000 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
		(thousands of dollars)		
Short-term investments	$ 289,393	–	–	$ 289,393
Average yield	5.27%	–	–	5.27%
Long-term investments	$ –	55,557	–	$ 55,557
Average yield	–	4.79%	–	4.79%
Loans receivable (1)				
– Fixed-rate	$ 1,203,026	3,153,728	536,886	$ 4,893,640
Average yield	8.03%	7.87%	8.45%	7.97%
– Floating-rate	$ 206,080	939,855	95,790	$ 1,241,725
Average yield	7.90%	8.08%	8.12%	8.05%
Short-term debt	$ 1,046,337	–	–	$ 1,046,337
Average yield	5.16%	–	–	5.16%
Long-term debt	$ 1,322,891	2,989,663	547,948	$ 4,860,502
Average yield	5.65%	5.98%	5.74%	5.86%

1999 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
		(thousands of dollars)		
Short-term investments	$ 243,191	–	–	$ 243,191
Average yield	4.99%	–	–	4.99%
Long-term investments	$ –	102,713	–	$ 102,713
Average yield	–	4.87%	–	4.87%
Loans receivable (1)				
– Fixed-rate	$ 1,136,760	3,389,891	561,309	$ 5,087,960
Average yield	7.98%	7.89%	8.31%	7.96%
– Floating-rate	$ 116,811	483,813	24,632	$ 625,256
Average yield	7.84%	7.82%	7.92%	7.82%
Short-term debt	$ 1,127,753	–	–	$ 1,127,753
Average yield	4.96%	–	–	4.96%
Long-term debt	$ 946,568	2,820,430	585,260	$ 4,352,258
Average yield	6.10%	6.01%	6.44%	6.09%

Note: (1) Loans receivable excludes impaired loans.

15. Fair values

The following table summarizes the estimated fair value of the Corporation's financial instruments.

	2000		1999	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
		(thousands of dollars)		
Assets				
Cash and short-term investments	**$ 308,768**	**$ 308,768**	$ 245,797	$ 245,797
Accounts receivable and other accrued assets	**74,874**	**74,874**	31,760	31,760
Long-term investments	**55,557**	**53,493**	102,713	102,397
Loans receivable	**6,054,099**	**6,025,248**	5,629,202	5,721,720
Liabilities				
Accounts payable and accrued liabilities	**$ 23,349**	**$ 23,349**	$ 21,699	$ 21,699
Accrued interest on borrowings	**165,966**	**165,966**	122,522	122,522
Short-term debt	**1,040,139**	**1,039,837**	1,120,318	1,120,667
Long-term debt	**4,700,734**	**4,695,442**	4,237,171	4,378,054

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and short-term investments, accounts receivable and other accrued assets, accounts payable and accrued liabilities, and accrued interest on borrowings.

Fair value for long-term investments is determined by reference to quoted market prices.

Quoted market values are not available for a significant number of the Corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

Estimated fair value for short-term debt and long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year end for equivalent terms to maturity.

The estimated fair value for loans receivable is determined by discounting expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due date) at market interest rates. The allowance for credit losses is valued at its balance sheet carrying value.

Note: The fair value (replacement cost) of derivative financial instruments is disclosed in Note 13.

16. Segmented information

The Corporation is engaged in two distinct business segments: agricultural lending and real estate management. Both operate exclusively in Canada. Details regarding these segments are readily available in the Corporation's financial statements.

17. Comparative figures

Certain 1999 comparative figures have been reclassified to conform with the presentation adopted in 2000.

Corporate Governance

A Report from the Board of Directors

Board Stewardship

FCC's Board of Directors is responsible for overseeing FCC's management and business in the best interests of the Corporation and the long-term interests of the Government of Canada. The Board's responsibilities are set down in the *Farm Credit Corporation Act* and the *Financial Administration Act*.

The Board discharges its responsibilities directly and through committees that include Audit, Corporate Governance and Human Resources. Formal recommendations are presented to the full Board of Directors for consideration. The Board meets regularly to review strategic direction, business operations and financial results, and to receive committee reports.

Board responsibilities

As part of its overall stewardship responsibility, the Board:

- establishes and approves the strategic direction, corporate plan and budgets in co-operation with senior management;
- assures that the principal business risks have been identified and that appropriate systems to manage these risks are in place;
- ensures a management succession plan is in place; and
- assures that information systems and practices meet the Board's needs for confidence in information integrity.

Actions requiring board approval

There is a clear understanding between management and the Board of Directors, through historical board practice and accepted legal practice, that all transactions or matters of a material nature must be presented to the Board for approval. The Board by-laws state that all significant corporate policies require Board approval, including the corporate plan as well as the strategic, financial and borrowing plans. The Board of Directors believes it is well informed as to the business and affairs of FCC and that appropriate matters have been brought to the Board for approval.

Director appointment and renewal

The Governor in Council appoints the Chair and the President of the Corporation. The Minister of Agriculture and Agri-Food appoints all other Directors with approval of the Governor in Council. Directors are appointed for terms of up to three years and are eligible for reappointment. FCC's Board members include successful primary producers and other business people from rural and small urban centres. The members are leaders in the agri-food and financial services industries.

The Board of Directors has approved a Chair profile and a Director profile that set out the desired qualifications, experience, duties and responsibilities of these positions. These profiles will serve as a frame of reference for the selection of future candidates.

Board education

Each member of the Board receives a detailed orientation briefing upon appointment. They participate in development activities, including attendance at educational seminars sponsored by the Conference Board of Canada and periodic board in-service governance sessions with experts on governance. This fiscal year, Directors attended seminars, bringing back information and best practices to the Corporate Governance Committee for discussion and implementation.

Loans where Directors may have a material interest

Agriculture and agribusiness knowledge is one of the key attributes for a Board member to possess. The Board recognizes that Directors who are drawn from the agricultural sector may, from time to time, become FCC customers.

It is therefore desirable for the Board to have a clearly enunciated policy governing the matter of loans where directors may have a material interest. The policy established by the Board, along with the *Financial Administration Act* and the Conflict of Interest Code for Public Office Holders, clearly sets out a process to distance a Director from direct involvement in the particular transaction and to withdraw from making any representations thereon.

Directors must disclose any interest in, and refrain from voting in respect of, any material contract with the Corporation. The policy further states that any such loan or material contract involving a director shall be handled in an independent and arms-length fashion and that no advantage or preference shall be shown in relation to either. The loan request is processed at the district or provincial level and not at the office in the Director's immediate area. No senior management executive is involved with the loan other than the Vice-President of Risk Management. As a matter of governance practice, the Board has no involvement in the approval of any loans including their terms, conditions or interest rates.

Public policy objectives and communications

As part of the strategic planning process, the Board examines FCC's public policy and strategic objectives and periodically reviews the legislative mandate to ensure its continuing relevance. The Board must also be satisfied with the main messages contained in FCC's corporate plan, annual report and budget summaries.

Board Composition

The Board of Directors is composed of 12 members including Chair, Chief Executive Officer and 10 Directors. Eleven of the Directors, including the Chair, are independent of management and the Board has in place policies and procedures to ensure that Directors have the ability to exercise judgement with a view to the best interests of the Corporation.

FCC's President and Chief Executive Officer is appointed on a full-time basis by the Governor in Council and is also member of the Board of Directors. John J. Ryan was appointed to this position on September 1, 1997.

Audit Committee

Chair:	Warren Ellis
Members:	Donald W. Black
	Rosemary Davis
	Rashpal Dhillon
	Maurice Kraut
	Marie-Andrée Mallette
	Germain Simard

Composed of seven non-management Directors, the Audit Committee's primary functions are to oversee FCC's financia performance; monitor activities by reviewing the Corporation's financial and operational reporting systems, internal control systems and audit processes; and to make recommendations accordingly. In discharge of its responsibilities, the Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General – the auditors for FCC.

During this fiscal year, the Audit Committee met five times and carried out its mandate in five key areas:

- reviewed and approved the 1998-99 Financial Statemen and Annual Report and the quarterly financial results fo the fiscal year 1999-2000;
- reviewed and approved the 1999-2000 annual corporat audit plan and all final audit reports issued, as well as th status of actions taken by management to address areas requiring improvements;
- reviewed and approved Board and CEO expenses for fisc 1999-2000;
- received and reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 1998-99, as well as the plan for the 1999-200 annual audit; and
- reviewed the establishment of a new field audit progran

Board Committees

Human Resources Committee

Chair: Eleanor M. Hart
Members: Donald W. Black
Edward W. Clark
Rashpal Dhillon
Lois Hole
John J. Ryan
Marilyn Marie Scott
Germain Simard

The Human Resources Committee is composed of eight Directors. The Committee's primary responsibility is to review all major human resources policy matters and to make recommendations to the Board of Directors.

The Committee reviews and makes recommendations on management development, performance evaluation and succession planning with respect to the Chief Executive Officer. In addition, it oversees the management development plan, management succession plan framework, employment equity policy and official language policy of the Corporation, as well as the design, objectives and competitiveness of FCC's compensation plans.

During this fiscal year, the Human Resources Committee met six times and carried out the following activities:

- set the CEO's objectives;
- evaluated the CEO's performance;
- examined the Corporation's compensation policies;
- reviewed the matter of establishing an FCC pension plan;
- assessed the Corporation's performance in the area of official languages; and
- reviewed the 1999 employee satisfaction survey results.

Corporate Governance Committee

Chair: Edward W. Clark
Members: Donald W. Black
Rosemary Davis
Eleanor M. Hart
Maurice Kraut
Marie-Andrée Mallette
John J. Ryan
Marilyn Marie Scott

The Corporate Governance Committee provides a focus on Board governance, as well as assessment and recommendations to the Board regarding corporate values and the elements that facilitate its effectiveness. The Corporate Governance Committee is comprised of seven non-management members, as well as the Chief Executive Officer.

The Committee:

- develops and recommends enhancements to the Corporation's system for corporate governance, as well as implements and manages the system;
- advises the Board of any governance issues or processes which need to be considered by the Board or any of its committees; and
- reviews and makes recommendations on governance accountability statements for the roles of the Board, Chair, Board members, Committee Chairs and the Chief Executive Officer.

During this fiscal year, the Corporate Governance Committee met four times and carried out the following activities:

- in-depth discussions on approaches to strategic planning issues;
- enhanced links between the Board, CEO and senior management;
- refined Board material, content and timing in its delivery; and
- reviewed the Corporate by-laws and made necessary recommendations.

After the Directors completed a Board evaluation process in March 1999 that identified opportunities for further governance development, the Corporate Governance Committee recommended a progress review. The Board carried out the review and assessed progress in implementing recommendations from the Board evaluation process.

Board and Management Relations

A Board's ability to work closely with management and simultaneously function with an independent perspective is central to effective corporate governance. FCC's Board strives to develop a strong working relationship with all members of senior management. In turn, it expects FCC management to implement the Corporation's strategy and business plan and to keep the Board apprised of its activities.

In conjunction with the Chief Executive Officer, the Board also ensures that an appropriate allocation of responsibilities between both parties occurs. In addition, the Board establishes clear accountability, including a set of corporate objectives and an evaluation framework for the CEO.

Throughout the year, the Board of Directors has maintained a commitment to open communication between itself and management. Members of senior management regularly attend and participate in the discussions at Board meetings on a rotational basis. The Board established a corporate pension committee comprised of appointed and elected FCC management and staff to represent the interests of employees in governing FCC's pension plan. The Directors also contributed to the development of the new compensation plan for all FCC employees and approved its final content.

Board Remuneration

For the performance of their duties, Directors are paid an annual retainer and per diem amounts, which are set by the Governor in Council pursuant to the *Financial Administration Act* on the recommendation of the Minister of Agriculture and Agri-Food.

The Chair of the Board receives an annual retainer of $6,500 and per diem of $375 for meetings attended. Committee Chairs receive an annual retainer of $4,250 and $300 per day for meetings attended. All other Board members receive an annual retainer of $3,500 and a per diem of $300 respectively. Per diems are paid for time spent performing corporate business in accordance with corporate policies. In the case of more than one meeting being held on one day, only one per diem is paid to each attendee. Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties on behalf of the Corporation. These expenses vary from Director to Director according to committee responsibilities and distance traveled to participate in Board meetings.

Director	Board Retainer (A)	Per Diems (B)	Total Remuneration (A&B)	Board Meeting Attendance (%)	Committee Meeting Attendance[1] (%)	Board Expenses
Donald W. Black	$ 6,500	$ 6,000	$ 12,500	89	85	$ 14,560
Edward W. Clark	4,250	7,200	11,450	100	100	24,800
Rosemary Davis	3,500	6,300	9,800	89	90	15,320
Rashpal Dhillon	3,500	5,400	8,900	78	82	13,640
Warren Ellis	4,250	9,900	14,150	100	100	29,240
Eleanor M. Hart	4,250	6,600	10,850	100	100	15,760
Lois Hole[2]	3,240	3,300	6,540	75	80	5,860
Maurice Kraut	3,500	4,200	7,700	100	67	2,770
Marie-Andrée Mallette	3,500	7,500	11,000	100	100	20,450
Marilyn Marie Scott	3,500	4,800	8,300	100	100	7,910
Germain Simard	3,500	7,500	11,000	89	100	20,050
Total	**$ 43,490**	**$ 68,700**	**$112,190**	**9 meetings**		**$170,360**

[1] *Fifteen Committee meetings were held: five Audit, six Human Resources and four Corporate Governance Committee meetings.*

[2] *Lois Hole stepped down from the Board in February 2000.*

Board of Directors

The 12 members of FCC Board of Directors bring a wealth of diverse experience and backgrounds in Canada's agricultural and financial industries to their stewardship of FCC. One common trait they all share is a passion for agriculture. The following profiles illustrate the strengths they bring to their positions, as well as the personal nature of their commitment to the agricultural industry.

Donald W. Black

Chair since January 11,1995, member, Audit, Corporate Governance, and Human Resources Committees

- President and Chief Executive Officer of Greystone Capital Management Inc., a Regina-based independent investment counseling firm with $10 billion under management
- Served as director of public companies, such as TGS Properties Ltd. and the Luscar Coal Income Fund, as well as private companies, industry associations and charitable organizations
- Strong believer in the business sector's support of the community and serves on the Canadian Scholarship Trust plan

"As someone from the Prairies, agriculture literally surrounded me growing up. I have infinite respect for the work ethic and ingenuity farmers routinely demonstrate in their day-to-day business."

Edward W. Clark

Director since May 28,1996, Chair, Corporate Governance Committee and member, Human Resources Committee

- Owner/operator, beef and forage farm, Miscouche, Prince Edward Island for 40 years
- Served on Minister's Advisory Committee that named the Confederation Bridge connecting P.E.I. to the mainland
- Won the Friend of 4-H award commemorating commitment to the 4-H organization in 1995
- Elected to the Prince Edward Island Legislative Assembly in 1970 and served as Minister of Agriculture and Forestry and the Speaker of the Legislative Assembly among other portfolios, retired as an MLA in 1996
- Strong commitment to community: former president of P.E.I. Junior Farmers, former member of Federation of Agriculture, past provincial president of the P.E.I. Shorthorn Breeder's Association, 4-H Leader for 20 years

"I was born on a farm on Prince Edward Island and have always had a great love for the soil and the environment. I believe it must be protected for future generations."

Rosemary Davis

Director since December 19, 1995, member, Audit and Corporate Governance Committees

- Owner/operator, Tri-Country Agromart Ltd., a retail and wholesale fertilizer plant, farm supply, feed store and garden centre in Trenton, Ontario
- Director, Trenval Development Corporation; Chair of the Agriculture Committee, member of the Organizing Committee of the Quinte Farm Show
- Involved in the Fertilizer Institute of Ontario Fertilizer Use Committee, Ontario Federation of Agriculture, Soil and Crop Associations of Northumberland, Hastings, Prince Edward, the Northumberland Apple Growers Association and Rotary International

"I enjoy agriculture because of the innovative, intelligent and hardworking people that shape the agricultural business world."

"I was born on Prince Edward Island – 'The Million Acre Farm.' Having grown up working with agriculture, I have come to admire and respect the people who have chosen farming as a career. There is no other group that works as hard for such little return since farmers are at the start of the production chain. Farmers are the foundation of the nation we call Canada."

Rashpal Dhillon

Director since June 6, 1995, member, Audit and Human Resources Committees

- President and Chief Executive Officer, Richberry Farms Ltd, a cranberry and blueberry operation based in Richmond, B.C. and General Partner and Chief Executive Officer of Pitt Meadows Farms Ltd., a cranberry operation; Director/owner of Richview Golf Centre
- Former Director/Secretary of the Richmond Farmers Institute and the British Columbia Cranberry Marketing Board; former Director/Vice-President of the British Columbia Blueberry Co-operative and the Richmond Foundation.
- Director of the Canadian National Institute for the Blind, B.C.-Yukon Division, 20/20 Foundation

"I was born on a small farm in India. I grew up as a child working on our family farm. In my teens, I immigrated to Canada where I worked in several different non-agricultural jobs. However, my passion for farming was still burning strong. I invested in farms in California and every summer I took my family to harvest our crops. Years later, I invested in Canada. As my business grew, I decided that agriculture would be my full-time business. Today, my endeavors in agriculture have been very rewarding, both personally and financially."

Warren Ellis

Director since April 4, 1995, Chair, Audit Committee

- Proprietor, Warren Ellis Produce, O'Leary, Prince Edward Island, a mixed farming operation of potatoes, barley, wheat and feeder cattle
- President of O'Leary Potato Packers Ltd., a potato processing operation that processes and markets throughout North America and the Caribbean
- Past Board member of Western School Board and P.E.I. Lending Authority; past Chair of O'Leary Community Sports Centre and Potato Blossom Festival
- Atlantic Region honoree in Canada's Outstanding Young Farmers Program in 1994
- Avid supporter of the Terry Fox Foundation – his family's fundraising efforts surpassed that of all other families in Eastern Canada by raising the highest amount of money for the Foundation in 1999

Eleanor M. Hart

Director since May 2, 1995, Chair, Human Resources Committee and member, Corporate Governance Committee

- Farm partner/owner, Lokoja Farms in Woodstock, Ontario
- Past-President, Ontario Home Economics Association
- Parenting counsellor for local school councils and rural drop-in programs for parents and children
- Past Director of the Oxford County Federation of Agriculture and former member of the Agricultural Research Institute of Ontario
- Active with the Woodstock Campus Fanshawe College, participating in advisory boards and was a member of its evaluation committee for the Farm Business Management Course
- Member of Canadian Home Economics Association and the National International Development Committee of CHEA, which works to support efforts in developing countries in the area of food security and women's empowerment

"I know of no other industry that affects the whole social fabric of a country. From wholesome food production to job creation in rural Canada, agriculture has always been a point of stability for Canadian families and communities. In good and challenging times, agriculture has served Canada well."

Lois Hole

Director since April 4, 1995, member, Human Resources Committee, stepped down February 2000 to become Lieutenant-Governor of Alberta.

- Owner Hole's Greenhouses and Gardens, Ltd., a 40-year-old operation in St. Albert, Alberta that is one of the largest retail garden centres and greenhouses in Western Canada and regarded as a premier supplier of quality plants and gardening-related resources in Canada
- Published author and renowned gardening expert with six Canadian best selling books to her credit, as well as numerous columns in the Globe and Mail, the Edmonton Journal and the Edmonton Sun
- Affiliations have included the Canadian Heritage Garden Foundation, Child & Adolescent Services Association; Quality of Life Commission; Poverty in Action; The Alberta Congress and the Edmonton Mayor's luncheon for the Arts
- Served as Chancellor of the University of Alberta Senate and has received many awards, including an honourary doctorate from Athabasca University and the Order of Canada

"Agriculture hasn't just provided me and my family with a healthy life; it's given me the knowledge and personal growth I needed to make a difference in the community. If you treat the land with respect, it will reward you with all the rich bounty life has to offer."

Maurice Kraut

Director since June 28, 1999, member, Audit and Corporate Governance Committees

- Operates own firm – Agriculture Consulting – based in Winnipeg
- Co-owner and operator of a cattle and grain farm enterprise
- Serves as a policy analyst to the Beef Industry Committee of the Saskatchewan Stock Growers Association, Heartland Livestock Services and the Saskatchewan Cattle Feeders Association
- Has served successful terms as Research Director for the Canada Grains Council and Assistant Deputy Minister of Agriculture in Manitoba
- Served 16 years as the agriculture policy commentator for the CBC Farm Report in Winnipeg
- Taught policy and marketing at the University of Manitoba

"I have had a lifelong involvement in agriculture – including agricultural consulting, commentary and teaching. I continue to enjoy working in this business alongside producers, as both evolve and progress."

Marie-Andrée Mallette

Director since June 16, 1995, member, Audit and Corporate Governance Committees

- Farmer, large-scale farming of commercial crops and coloured beans in Quebec
- Lawyer specializing in agricultural, municipal, real estate, international trade corporate and commercial law in Ste-Martine/Châteauguay, Quebec for 14 years
- Regional Director of the Quebec Business Women's Association and founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec)
- Works actively with the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power and the Canadian Bar Association and shares her own experience with exporting to assist and guide producers
- New owner of a supermarket in Châteauguay region

"My passion for agriculture came from my parents. I endorse it because, in my opinion, it is the base of our lives and society, and I am proud to be able to grow quality products so our communities can eat."

John J. Ryan

Director since September 1, 1997, member, Corporate Governance and Human Resources Committees

- President and Chief Executive Officer, Farm Credit Corporation, Regina, Saskatchewan
- Currently serves on the Board of Trustees with the Canadian Athletic Foundation, the Board of Directors for the Hospitals of Regina Foundation and is a member of St. Francis Xavier's Millennium project
- Served as Vice-Chair in the United Way 1999 campaign in Regina and is the Chair for the Year 2000 campaign
- Board member of the Adult Learning Centre in Regina

"I am continually inspired by the innovation, commitment and hard work that Canadian producers display each year as the agricultural industry undergoes transformation and faces new challenges."

Marilyn Marie Scott

Director since October 24, 1996, member, Human Resources and Corporate Governance Committees.

- Lawyer specializing in agriculture law, wills and estates and Partner in Scott & Weber Law Firm, Humboldt, Saskatchewan
- Earned a Bachelor of Commerce degree from the University of Saskatchewan in 1977, followed by a Bachelor of Law degree in 1978 and admittance to the Saskatchewan Bar in 1979
- Member and past Director of Women Entrepreneurs of Saskatchewan and current Chairperson of the Humboldt & District Chapter of Women Entrepreneurs, member of the Humboldt District Chamber of Commerce, the Canadian Bar Association and the Saskatchewan Trial Lawyers Association
- Active community involvement includes Girl Guide leader, as well as various church, educational and hospital liaisons

"While I am one of the few Board members who is not involved directly in agriculture, it is the heart of my community and a central focus of my business. Life in rural Saskatchewan reflects the determination, co-operative spirit and optimism of our farmers. Those of us who have been lucky enough to grow up in these rural communities appreciate those roots and the need to keep agriculture strong."

Germain Simard

Director since June 6, 1995, member, Audit and Human Resources Committee

- Owner (with his two sons) of Ferme de l'Anse Enr., an operation that includes dairy production, field crops and agro-tourism (on-farm accommodations)
- 1971-1991 – President of the Union des producteurs agricoles (UPA) for Saguenay-Lac-Saint-Jean; responsible for several committees; member of the Quebec UPA General Council and Executive; member of the Commission professionnelle de l'Agriculture; committee member of a training program for young farmers
- Since 1992 – Executive Vice-President of the Fédération des Agricotours du Québec; President of the Fédération des Agricotours du Québec for the Saguenay-Lac-Saint-Jean region
- Member of the agri-food co-operative Nutrinor
- Member of the Caisse populaire Desjardins

"Agriculture allows me to be close to nature and to be my own boss. I think it is a wonderful profession. The business of feeding people is of the utmost importance and very rewarding."

Glossary of Terms

Agribusiness/Value Added – Agribusiness includes businesses that produce, transport, store, distribute, process or add value upstream or downstream from primary production.

Alliances – Alliances are relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services to primary producers and agribusiness.

Allowance for Credit Losses – Management's estimate of probable credit losses in the loans receivable portfolio. The allowance is increased by specific and general provisions for loan impairment and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Asset/Liability Management Committee (ALCO) – A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Corporate Governance – Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Credit Risk – The risk of financial loss occurring as a result of a default on obligations to the Corporation.

Derivative Financial Instrument – A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts, and futures.

Efficiency Ratio – Administration expenses as a percentage of income before recovery on real estate and provision for credit losses.

Foreign Exchange Risk (FX) – The risk of financial loss due to adverse movements in foreign currencies.

Gap Analysis – A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes.

Hedge – A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired Loans – Loans are classified as impaired when, in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where payment is 90 days past due is classified as impaired, unless the loan is well secured.

Interest and Currency Rate Swaps – Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest Expense – Expense to the Corporation incurred from the use of interest bearing funding instruments.

Interest Income – Income earned on loans receivable, cash and investments.

Interest Rate Option – A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest Rate Risk (IRR) – Exposure to a decline in net interest income and capital position as a result of a relative or absolute change in interest rates. Varieties of interest rate risk include: prepayment risk, commitment risk, and reinvestment risk.

Leverage – The relationship between total liabilities and the equity of a business.

Liquidity Risk – The risk that required funds will not be readily available to meet Corporate obligations in a timely manner.

Loan Renewal Rate – Percentage ratio of principal dollars renewed to principal dollars matured.

Market Value of Portfolio Equity (MVPE) – The net present value of assets less liabilities. It is used to measure the sensitivity of the Corporation's net economic worth to changes in interest rates.

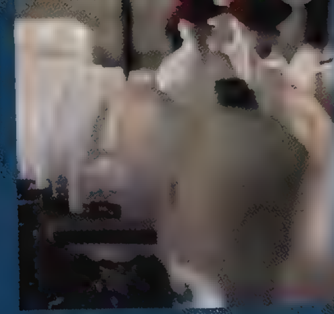
Net Interest Income (NII) – The difference between the interest earned on assets, such as loans and securities, and interest expense on liabilities, such as deposits and loans payable.

Net Interest Margin – Net interest income expressed as a percentage of average total assets.

Notional Principal – A reference amount upon which payments for derivative financial instruments are based.

Return on Assets (ROA) – Net income expressed as a percentage of average total assets.

Return on Equity (ROE) – Net income expressed as a percentage of average equity.



FCC Office Locations

British Columbia:
Abbotsford, Dawson Creek, Duncan, Kelowna

Alberta:
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Lethbridge, Medicine Hat, Olds, Red Deer, St. Paul, Stettler, Stony Plain, Vegreville, Vermilion, Westlock, Westaskiwin

Saskatchewan:
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Manitoba:
Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage La Prairie, Steinbach, Stonewall, Swan River, Virden

Ontario:
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lambeth, Lindsay, Listowel, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec:
Alma, Drummondville, Gatineau, Granby, Joliette, Rock Forest, St-Jérôme, Rivière-du-Loup, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Foy, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick:
Grand Falls, Moncton, St. George, Sussex, Woodstock

Newfoundland:
St. John's

Nova Scotia:
Kentville, Truro

Prince Edward Island:
Charlottetown, Summerside

Agri-Land:
1801 Hamilton Street
P.O. Box 4320
Regina, Saskatchewan
S4P 4L3
Telephone: (306) 780-8411
Fax: (306) 780-7576

Government and Industry Relations Office:
50 O'Connor Street
Suite 1100
Ottawa, Ontario
K1A 0S6
Telephone: (613) 993-9897
Fax: (613) 993-9919

Corporate Office:
1800 Hamilton Street
P.O. Box 4320
Regina, Saskatchewan
S4P 4L3
Telephone: (306) 780-8100
Fax: (306) 780-5456

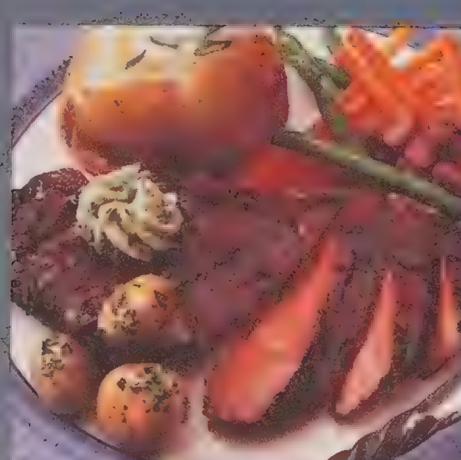
www.fcc-sca.ca

Customer toll-free number:
1-877-332-3301

Agriculture. It's all we do.

FCC Farm Credit Corporation
SCA® Société du crédit agricole
Canada

Cette publication est également offerte en français.



Meet, exceed, anticipate.

Farm Credit Corporation
2000-01 Annual Report

Meet, exceed, anticipate

To not only meet, but exceed customer expectations – that's how we at FCC judge our success. But exceeding expectations isn't enough to ensure the success of the Canadian farmers and agribusiness owners who do business with us. We must anticipate their needs and offer them unique solutions.

Photography provided by Paul Austring and Greg Huszar with the exception of the Strategic Plan photograph, taken by Darrel Kajati.

CORPORATE

Profile

Farm Credit Corporation (FCC) is Canada's largest agricultural term lender, offering flexible financial solutions to primary producers and agribusinesses. Corporate office is located in Regina, Saskatchewan, with 900 employees serving customers from 100 offices across Canada. The number of customers we serve has grown to 44,700 and the loan portfolio to $6.9 billion in the past year.

Corporate values

At FCC, our corporate values are the foundation of our collective beliefs and guide our corporate conduct with colleagues and customers. They reflect our business strategies and our customers' expectations.

- Focus on the customer
- Act with integrity
- Work together
- Give back to the community
- Achieve excellence

Vision

Visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Mission

Enhance rural Canada by providing specialized financial services to farming operations – including family farms and small to medium-sized agribusiness – with an emphasis on personalized service.

Above: FCC customers Réjean & Bernard Barrette
On the cover: FCC customers Derek & Debbie Scott

Contents

OPERATIONAL and FINANCIAL

2000-01 Highlights

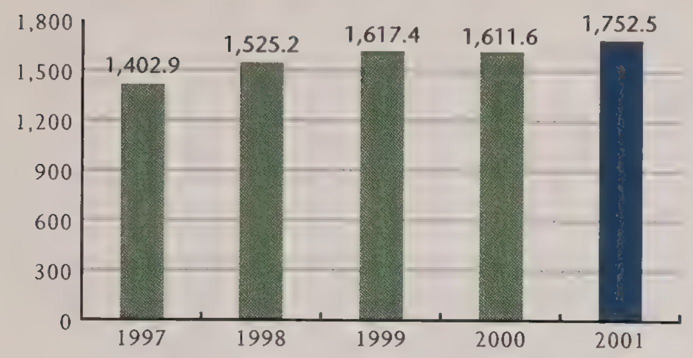
FOR THE YEARS ENDED MARCH 31

Operational	2001	2000	1999	1998	1997
Loans receivable portfolio					
Number of loans	**75,202**	73,686	72,311	69,846	65,318
Amount ($ millions)	**6,907.6**	6,303.8	5,843.4	5,318.8	4,687.0
Net portfolio growth (%)	**9.6**	7.9	9.9	13.5	15.3
Percentage of loans receivable in good standing (%)	**95.5**	94.9	94.8	94.3	93.1
New lending					
Number of loans approved	**13,289**	14,201	14,880	15,488	12,910
Amount of loans approved ($ millions)	**1,752.5**	1,611.6	1,617.4	1,525.2	1,402.9
Average size of loans approved ($)	**131,875**	113,500	108,700	98,500	108,700
Real property held at year end					
Number of properties	**372**	924	1,516	1,787	1,982
Number of acres	**120,924**	360,284	604,054	725,703	823,841
Value ($ millions)	**25.1**	64.9	103.4	123.5	139.6

Financial	2001	2000	1999	1998	1997
Balance sheet ($ millions)					
Total assets	**7,181.8**	6,570.7	6,125.1	5,706.2	5,022.4
Total liabilities	**6,349.2**	5,943.5	5,533.2	5,156.9	4,564.7
Equity	**832.6**	627.2	591.9	549.3	457.7
Income statement ($ millions)					
Net interest income	**164.5**	154.4	146.3	134.1	141.7
Provision for credit losses	**40.2**	52.7	33.2	18.7	24.0
Net lease and real estate income	**23.2**	23.0	14.7	13.0	7.1
Other income	**8.2**	6.4	7.1	8.8	5.8
Administration expenses	**94.5**	90.8	90.1	89.4	83.4
Current income taxes	**2.2**	1.9	2.2	6.2	6.6
Future income taxes	**27.4**	–	–	–	–
Net income for the year	**31.6**	38.4	42.6	41.6	40.6

As a sovereign borrower, FCC maintains an AAA credit rating.

Loans approved
($ millions)



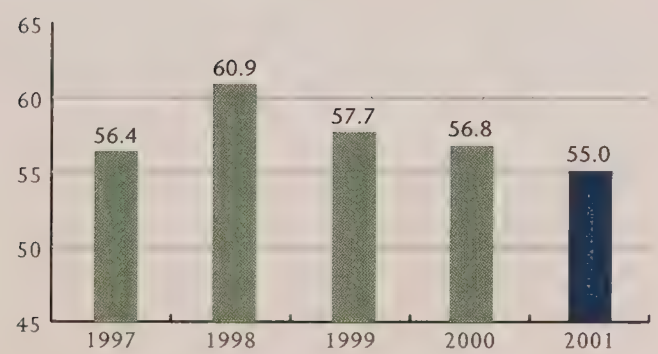
Operational highlights

- Approved $1.8 billion in new loans
- Eighth consecutive year of portfolio growth at 9.6 per cent in 2000-01
- Sold 249,116 acres of land back to producers
- Initiated e-business project to improve service to customers
- Launched AgriSuccess program

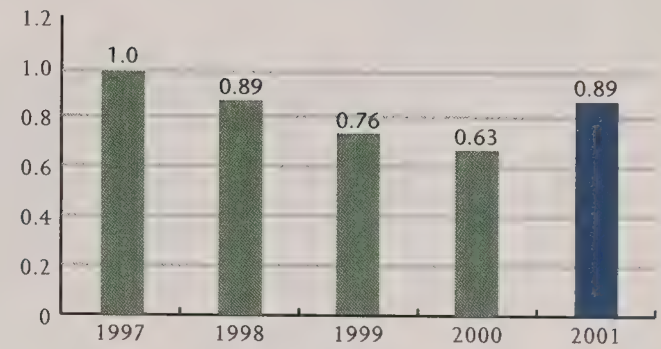
Financial highlights

- Return on equity and return on assets increased due to higher net interest income offset slightly by increased administration expenses
- Continued strong earnings generating increased capacity for lending
- Allowance for credit losses increased by $19.5 million, reflecting a larger portfolio
- Debt-to-equity improved, enabling FCC to reinvest in agriculture and continue to grow the balance sheet
- Efficiency ratio improved to 55.0 per cent from 56.8 per cent

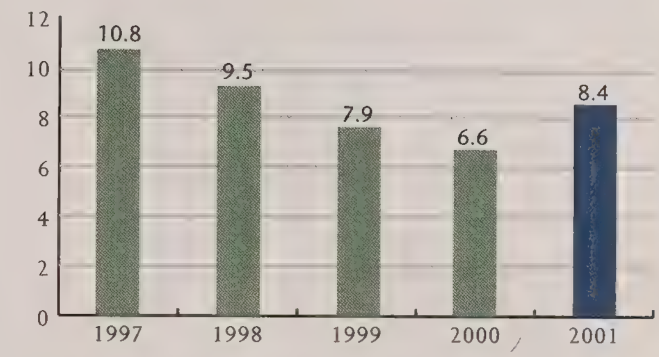
Efficiency ratio
(%)



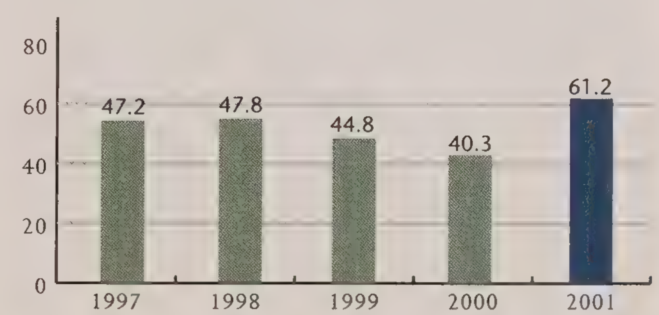
Return on assets*
(%)



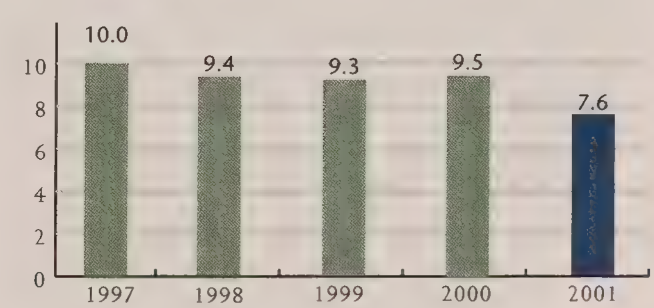
Return on equity*
(%)



Net income*
($ millions)



Debt-to-equity
(X:1)



* *before income taxes.*

MESSAGE from the

President

The success of the Canadian agricultural industry has always been tied to its ability to adapt, change and innovate according to market and environmental conditions. This year has been no different. FCC has continued its tradition of working with producers, agribusinesses and the agricultural industry.

FCC's account managers worked with customers on an individual basis to develop innovative financial solutions during adverse market and weather conditions. We also helped customers capitalize on new market opportunities in the many sectors that experienced an excellent year.

Our specialized expertise continues to help customers navigate the challenges created by world trade issues, increased energy and input costs and continuing climatic fluctuations.

How do we know we help? We survey our customers, our partners and the agricultural community and use the results to benchmark and enhance our services. This year, we discovered that a high percentage of our customers would recommend FCC to others and that even more consider us their preferred lender.

This is great feedback. But we cannot become complacent. We continue to innovate.

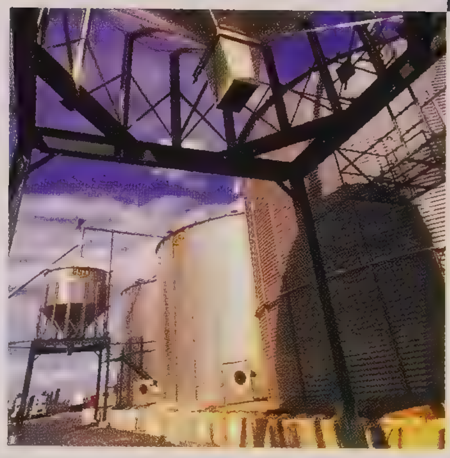
FCC launched an industry first this year. Enviro-Loan is the first Canadian loan to offer producers and agribusinesses targeted financing to construct, improve or expand operations according to sound environmental practices.

Manitoba customers told us that they needed an easier way to expand their business in the cyclical hog industry. We introduced Flexi-Hog, a national loan product that features principal payment flexibility that meets their needs.

We heard from Canadian Farmers with Disabilities that Canadian producers required more accident insurance protection. We enhanced the FCC creditor life insurance program.

FCC's focus on customers and innovation has contributed to eight years of solid financial returns.

In 2000-01, our loan portfolio grew to a record level of $6.9 billion and our return on equity (before income taxes) increased to 8.4 per cent as at March 31, 2001. We also increased the number of customers served across Canada to 44,700.



As a Corporation, we continue to challenge ourselves on ways to become more efficient. This has resulted in an improved efficiency ratio of 55 per cent. The improvement in our financial performance is important as it helps us strengthen our contribution to the agricultural industry. Profits earned are reinvested into agriculture through innovative product development and by self-financing our portfolio growth.

One example is our investment in AgriSuccess. With our AgriSuccess partners, we developed interactive life cycle and business planning tools for producers across Canada.

Our customers and the agricultural industry also told us that they wanted to do business with us on their terms and during times that are convenient to them. That's why, this year, we complemented our coast-to-coast market presence of 100 offices with a redesigned Web site that is better geared to customer needs. Our investment into our Web site is the first step in a significant e-business initiative that will provide our customers with integrated delivery channels to better meet their information and business needs.

We put our employees' agricultural expertise to work for customers.

Specialized expertise is our greatest strength and we draw this strength from our uniquely talented employees. Many of them have their roots in agriculture and understand the challenges that face our customers.

FCC has made a commitment to ongoing learning for all its employees throughout their careers. Every year, all levels of management participate in specialized management training. FCC also offers a succession-planning program that gives tomorrow's leaders the tools they need to ensure FCC's future success.

FCC's investment in employees included ongoing credit and financial training. In addition, every year more and more employees and managers participate in FCC's linguistic training. This allows us to better serve our customers by making the Corporation more fluent in Canada's two official languages.

As a result of this investment in people, FCC employees have continued to strengthen their expertise. They developed and implemented a number of process and operational improvements, such as new risk management tools and streamlined lending practices. These efforts have complemented their strong relationships with customers that differentiate us in the marketplace. Again this year, FCC people are responsible for our success and this is but one opportunity to acknowledge and thank them for their passion and their efforts.

FCC believes in a balanced scorecard approach to business. From human resources and customer loyalty to quality improvement and financial success – we pay equal attention to each individual element. We also reviewed our corporate values to ensure they continue to focus on the customer. The result is a financially viable corporation and a net benefit to our customers and stakeholders.

Our innovations this year are making it easier for our customers to do business with us by phone, by personal visit or through the Internet. FCC will continue to provide the agricultural community with financial solutions that meet, exceed and anticipate its needs. Together we can enhance rural Canada by ensuring the long-term viability of agriculture.

Agriculture. It's all we do.

John J. Ryan
President and CEO

MESSAGE from the

Chair

The typical Canadian farm doesn't exist. What motivates and challenges producers is as varied as the regions and sectors in which they live and work. Economic and market conditions, climate and life-cycle stage influence every decision.

FCC recognizes these differences and serves Canadian agriculture with specialized financial expertise. As Canada's largest agricultural term lender, we are uniquely positioned to provide leadership and contribute to the success of the Canadian primary producer and agribusiness.

It was with a high sense of responsibility that I accepted the position of FCC Chair in June 2000 after six years as a member of the Corporation's Board of Directors. Like all the members of the Board, I have a strong personal and professional stake in the success of Canadian agriculture. We recognize that to lead the way in agricultural financing, FCC must also give back and contribute to the success of our communities.

FCC's mission is to enhance rural Canada. We take this public policy role very seriously. It begins with responsible financial management of FCC operations. The Board works with management to ensure that day-to-day business practices, as well as long-term strategies, are aligned with the needs of stakeholders and with the customers we serve.

Beyond meeting immediate needs, we must also anticipate and exceed expectations. An example is AgriSuccess. This year, FCC partnered with public and private sector organizations from all regions of the country. Together we created an interactive Web and local seminar-based business planning tool. This initiative offers life cycle, succession and retirement planning, and helps with business and environmental management. AgriSuccess is one way we are leading the way in agriculture by partnering to provide previously unavailable services to the entire agricultural community.

Giving back to our community

FCC continues to demonstrate leadership through its involvement with the Canadian Centre for Philanthropy's *Imagine* Program. As a member, FCC donates one per cent of pre-tax annual income to charitable and not-for-profit community organizations.

FCC's commitment to the success of the Canadian farm extends beyond our business relationships. It includes the wellbeing of our customers and the quality of life in rural communities. This year, we continued to partner with like-minded local community and national organizations. Our focus this year was on activities that raised awareness of farm safety and food and hunger issues.

Every year, tractor accidents take a great toll on the family farm. Tractor rollover protection and seatbelt use was the focus of the 2000 National Farm Safety campaign. FCC worked with the Canadian Coalition for Agricultural Safety and Rural Health and the Canadian Federation of Agriculture to provide valuable educational resources on this and other important farm safety issues.

Looking to the future, FCC once again partnered with the Canadian 4-H Council to inspire and develop tomorrow's agricultural leaders. We awarded scholarships for creative initiatives that would benefit rural communities.

None of our giving back to the community would have been possible without the efforts of FCC employees. Across Canada, FCC people contributed their time, money and expertise to local programs such as food banks, school breakfast programs, the United Way and other community support organizations. They've made a difference in their own communities.

Partnering with industry

The ongoing success of FCC and commitment to its vision is thanks, in part, to the vision and direction of Donald W. Black, who stepped down as FCC Chair in May 2000. I would also like to take this opportunity to welcome two new Board members, Donna Graham and Joan Meyer, who are actively involved in farming.

A significant part of this vision includes FCC's proposed legislative amendments. In 2000, FCC consulted with more than 100 national and regional agricultural and financial industry groups to determine their views on the financial needs of agriculture. Using this feedback, we proposed changes to the *Farm Credit Corporation Act*, 1993. In April 2001, the amendments were tabled in the House of Commons and have yet to receive royal assent. These changes would position the Corporation to better serve the emerging needs of Canadian agriculture. They can help build a stronger, more diversified agricultural industry and contribute to sustained economic growth and job creation in rural Canada.

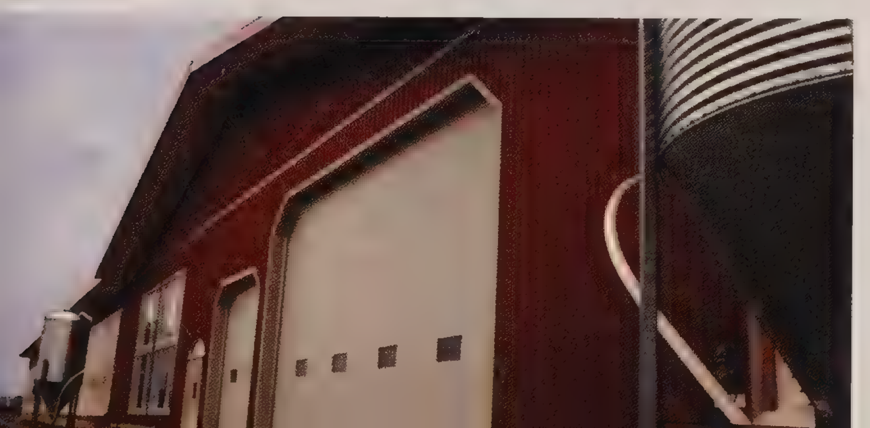
Through these amendments, FCC would continue to focus the majority of its activities on primary producers. At the same time, we would improve access to capital for farm-related businesses that benefit primary agriculture. We would also increase the range and scope of financial and business services we offer to customers.

FCC's Board of Directors is mindful that agriculture and the Canadian family farm will prosper through focus on the fundamentals of good business. We see tremendous opportunities. FCC will continue to work in partnership with our primary producer and agribusiness customers and our stakeholders to contribute to the fulfillment of these opportunities and the long-term success of Canadian agriculture.

Respectfully submitted on behalf of the Board of Directors.

Rosemary Davis

Rosemary Davis
Chair



MESSAGE from the

Minister

Agriculture is rapidly changing and becoming increasingly complex. What happens past the farm gate and beyond our borders is having a profound impact on the Canadian agricultural industry and our rural communities. Not only are Canadian producers and agribusinesses challenged by market, economic and climatic forces, but they must also ensure that their products are of the highest quality, are safe and produced in an environmentally responsible fashion.

Canada has an international reputation for the quality and safety of its agricultural products. Maintaining and enhancing this reputation is crucial. The Government of Canada believes in the value and sustainability of agriculture and has worked diligently with its partners to address issues, such as farm income, that continue to challenge the industry.

FCC is a valued partner and leader in this industry. The Corporation continues its vital role of offering specialized expertise and financial solutions solely targeted to agriculture. FCC's success this year comes from a commitment to help customers overcome challenges and seize market opportunities.

I am proud of FCC's contribution to Canadian agriculture through new products and services that truly meet and exceed the needs of producers. I also support the Corporation's efforts to work in partnership with other agricultural and financial organizations to increase access to services across rural Canada. I believe that the Corporation is moving steadily toward the realization of its vision – to lead the way in agricultural financing.

The Honourable Lyle Vanclief
Minister of Agriculture and Agri-Food

Producers plan for the future with AgriSuccess

In the next 10 years, an estimated 120,000 Canadian farmers will turn 65. According to a recent Ontario study, less than five per cent of producers in that province have a written succession plan.

To help Canadian producers plan for their future, FCC has partnered with public and private sector organizations to launch AgriSuccess, a comprehensive resource to help farmers plan for the long term. AgriSuccess features an interactive Web site and a series of planning seminars.

At www.agrisuccess.ca, producers can access information and services in areas vital to long-term success:

- business, strategic and contingency planning;
- environmental planning; and
- succession, retirement and estate planning.

The site is free to all visitors and gives producers feedback on the state of their planning.

To create AgriSuccess, FCC partnered with organizations including the Canadian Farm Business Management Council, Grant Thornton LLP, KPMG LLP, Meyers Norris Penny LLP, ProAgri Consulting Limited, Robinson & Company LLP and Union des producteurs agricoles. FCC sought partners to represent all regions of Canada and all areas of planning.

AgriSuccess is a result of a decision by the Minister of Agriculture and Agri-Food and FCC to reinvest a portion of the Corporation's 1999-2000 net revenues in agriculture. The initiative supports FCC's public policy role to enhance rural Canada.

To find out more about AgriSuccess, visit www.agrisuccess.ca.

AgriSuccess®

Operating Environment

Freer trade, globalization and technology are redefining the agricultural industry. These forces are creating new export opportunities for Canadian producers and an environment that is increasingly competitive.

Producers and agribusinesses face a complex set of challenges when compared to their predecessors. To succeed in today's environment, it is necessary to be positioned to take advantage of the opportunities in the marketplace. In responding to market needs, producers are expanding their agricultural operations, delving into new product lines and creating new businesses that add value to the agricultural industry. With the effects of globalization and freer trade, producers have more access to markets and opportunities, but they are also exposed to more risk than ever before.

Consumers are driving the need for efficiencies, as well as the increasing importance of food safety and concern for the environment. Consumers want to know what's in their food and how it's produced. Consumer confidence in the origin, content and handling of food has become a key driver in global markets. Diseases in livestock and produce can have a dramatic economic impact.

Subsidization in other countries is affecting the competitiveness of Canadian agricultural products in world markets. Commodity prices combined with steadily increasing costs of seed, feed, fertilizer, fuel and transportation are creating a cost-price squeeze for many producers. Narrower operating margins mean producers are faced with the challenge of attaining greater efficiency and diversification in their operations by expanding along the value chain or achieving economies of scale. This is resulting in a redefinition of what it means to be a farmer.

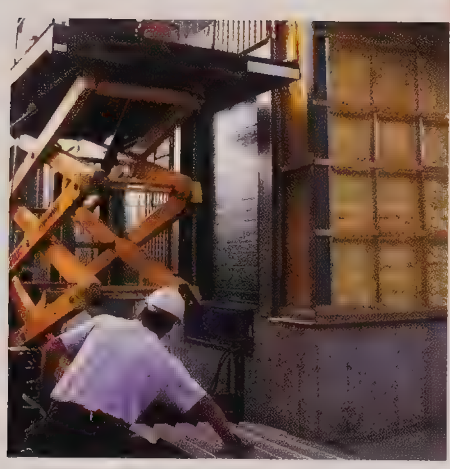
New markets and new ways of doing things.

Redefining the boundaries of agriculture

"In the face of a changing economic environment, farm families are challenging themselves to explore new markets and new ways of doing things. They need access to more complex business and financial management tools to succeed."[1]

Family farms remain a vibrant part of the Canadian agricultural landscape. Today's producers are focused on their markets, specific customers and product differentiation. This focus is influenced by increased demand for consumer-ready products. In Canada, annual exports of consumer-oriented agri-food products have grown to $9.1 billion in 1998 from $5.4 billion in 1996, making food and beverage processing Canada's second largest manufacturing sector.

Producers are exploring alternatives to traditional production and marketing methods in order to increase their competitiveness and access to markets. They are using new equipment and technology to reduce labour costs and increase productivity. E-commerce and e-business are having a positive impact on value-added production, creating better management of the links between supplier and buyer and breaking down distance and time barriers, as well as other obstacles to business and trade. Alliances, partnerships, mergers and fall-outs are occurring as producers explore new ways of doing business.[2]



Financing and business planning key to competition

"Primary producers are rethinking the nature of the business they are in. They can be expected to move further down the value chain into processing and marketing of niche products.... Agriculture can be and must be more than just food.... We need to look at how producers, processors and other investors can better work together to capture these opportunities."[3]

Many producers need to expand or diversify if they are going to compete in world markets. Farmers must continue such investments in response to growing food safety and environmental concerns or risk losing access to international markets and the confidence of Canadian consumers.

Access to the right financial and business management tools is key to success in the new agricultural marketplace. Beginning and developing producers require access to information to anticipate the needs of the marketplace, and access to capital to respond to those needs. Farmers with off-farm employment supplementing their income will require access to solutions geared for their special business needs.

Commercial farmers (producers entering agribusiness, large commodity producers and dedicated traditional commodity producers) will require specialized products and services such as leading-edge financing instruments like risk management tools and specially designed lending products.[4] Business planning expertise is a necessity for both producers and agribusinesses to ensure strategic growth in an industry driven by consumer demand and affected so heavily by environmental forces.

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1 Bob Friesen, President, Canadian Federation of Agriculture, May 11, 2001.

2 Diane Vincent, Associate Deputy Minister, Agriculture & Agri-Food Canada, E-Commerce for Agribusiness Conference, Chicago, Illinois, October 12, 2000.

3 Agriculture and Agri-Food Canada, "The Agriculture and Agri-Food System in 2010."

4 Ray Bollman, Statistics Canada, "Rural and Small Town Canada : An Overview, 2000."

Financial services industry transforming

Financial institutions are a key partner in the development of Canadian agriculture, and we are witnessing an unprecedented transformation of the financial services industry. The need to balance customer service delivery with efficiency and increased shareholder value is being addressed through the delivery of creative, customer-focused solutions and technological innovation. Customers can access financial services through the Internet, automated banking machines, telephone banking or the local branch.

As a result of Bill C-8 (financial services reform legislation), the level of competition will likely increase in the industry with more product suppliers and new product offerings. Credit unions, provincial lenders and other business solutions providers have a strong role to play in rural Canada. Partnerships among these different stakeholders will support the agricultural sector with improved products and services that address the needs of the industry and individual producers.

FCC sees a gap in financing for producers and agribusiness operators seeking to expand the boundaries of agricultural production. Our role as a federal Crown corporation dedicated to agriculture is to help create an environment conducive to growth. The Corporation is committed to working with credit unions, provincial lenders, other financial institutions and business solutions providers to equip Canadian producers with the resources they need to be competitive.

Financial industry **partnerships** increase options for **producers.**

BALANCED Scorecard

A balanced approach to meeting and anticipating customer needs

At the core of every decision and business activity undertaken at FCC is the question, "How does this benefit our customers?"

FCC measures progress through a system called the "balanced scorecard," which translates FCC's vision into measurable strategic objectives. From the corporate level to the individual level, objectives, goals and measures are set based on the key performance areas. The balanced scorecard enables the Corporation to gain an overall perspective of operations and closely monitor progress in four key strategic result areas:

Human resources and organization

FCC staff are known for their agricultural expertise and their passion for agriculture and seeing our customers succeed. Focusing on employee development and a positive workplace environment leads to productivity to the benefit of customers.

Customer loyalty and market presence

FCC continually strives to provide primary producers and agribusinesses with financial solutions that enable them to succeed.

Process effectiveness and quality improvement

Timely, efficient and relevant customer service delivery is key to providing our customers with the kind of solution they need, when and how they want to receive it.

Financial success

Sound financial management of the Corporation enables FCC to continue meeting, exceeding and anticipating the needs of producers and agribusinesses.

FCC's balanced scorecard objectives

Human resources and organization

Customer loyalty and market presence

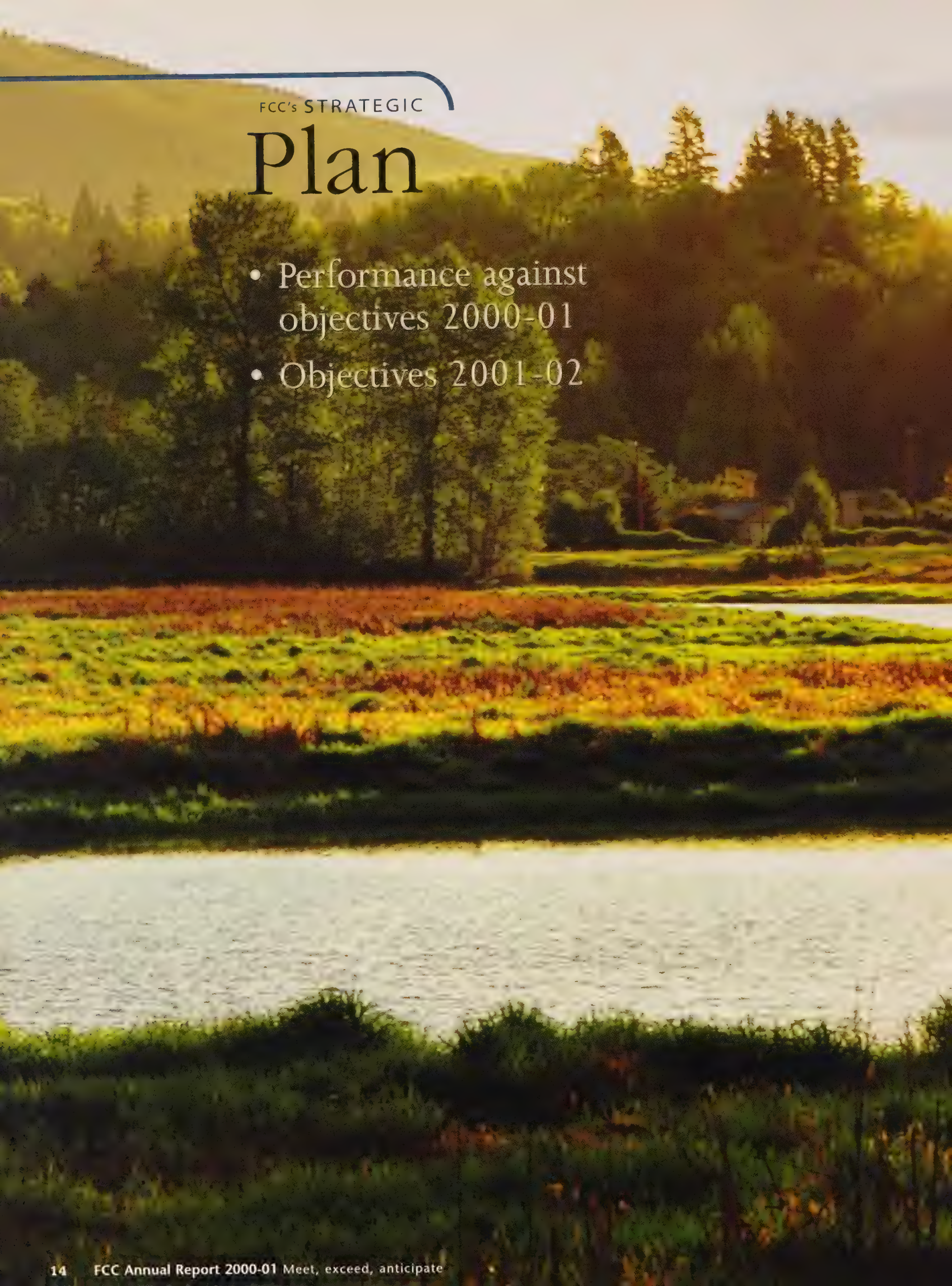
Process effectiveness and quality improvement

Financial success

FCC's STRATEGIC

Plan

- Performance against objectives 2000-01
- Objectives 2001-02



Human Resources and Organization

Unique people leading our success.

STRATEGIC INITIATIVES 2000-01

Inspire innovation by encouraging individual leadership and recognizing contributions.

- Innovative ideas generated through staff with realized savings
- Employee participation in designing processes which lead to efficiency gains

Improve factors impacting employee satisfaction.

- Improve the annual employee satisfaction survey (Human Resource Index) results
- Voluntary turnover rate of less than 10 per cent
- Fully meet linguistic obligations to staff as defined by the *Official Languages Act*.

Develop expertise by supporting a learning environment.

- Learning retention of 85 per cent as measured through follow-up process
- Invest 3.5 per cent of salary budget in training and development

2000-01 RESULTS

- Innovative ideas generated by staff in 2000-01 included:
  - development of Flexi-Hog product based on ideas from Manitoba field staff;
  - launch of a pilot project to market FCC's medium- and long-term notes to rural Canadians,
  - design and implementation of an intranet to improve access to sector and regional information,
  - implementation of a land-for-sale database accessible through FCC's Web site to reduce general inquiry calls.
- Employees participated in the testing and validation of new lending and loan administration processes, redesigned in the previous year, and in the redesign of human resources processes
- January 2001 Human Resource Index (HRI) survey results show a statistically significant increase in all 15 factors, with an overall increase to 3 50 from 3 36 in 1999 on a scale of one to five
- The annualized voluntary turnover rate of permanent employees, excluding retirements, was 8.05 per cent
- In 2000-01, 78 employees at all levels of the organization were enrolled in language training. For the first time, satisfaction with the provision of services in language of preference was measured through the HRI, with a result of 4 68 out of five.
- Learning retention rate measured for internal courses including credit, appraisal and system training was 83 per cent
- A total of 4.47 per cent of salary budget was invested in training and development in 2000-01. This does not include travel expenses incurred by staff while attending training

OBJECTIVES 2001-02

Inspire innovation.

- Launch an innovation program that will inspire employees to generate ideas for new products, services and efficiency gains.
- Innovations will result in increased customer and employee loyalty, increased revenues, reduced costs or improved efficiency.

Continuously improve factors contributing to employee satisfaction.

- A statistically significant improvement from January 2001 HRI.
- Attraction and retention strategies implemented to assist in maintaining the voluntary turnover rate at less than 10 per cent.
- Achieve goals set out in the Corporation's Employment Equity and Official Languages plans.

Develop knowledge, skills and expertise to reinforce FCC's Customer for Life strategy.

- 3.5 per cent of corporate salary budget invested in training and development.
- Identify corporate competencies required to advance the Customer for Life strategy and establish a plan for their development
- Ten industry expert teams established to build on specialized knowledge and better meet customer needs.

Customer Loyalty and Market Presence

Create solutions for customer success.

STRATEGIC INITIATIVES 2000-01

Grow support for primary production and agribusiness through increased market presence and continued customer relationship building.

- Disburse $1.2 billion to primary production.
- Achieve $230 million in disbursements to agribusiness
- Implement the Customer Relationship Management (CRM) strategy by March 31, 2001
- Establish Customer Loyalty Index (CLI) benchmark by March 31, 2001
- Establish FCC Brand Equity benchmark by March 31, 2001

Enhance existing and develop new channels for service delivery.

- Disburse $200 million via strategic alliances, including $27 million in disbursements through the National Equipment Dealer Financing Program (NEDFP)
- Develop the corporate service delivery channel strategy by January 1, 2001 for implementation in 2001-02.
- Implement an e-business strategy by March 31, 2001

Anticipate customer needs and respond with:

- two new fee-based solutions
- five new interest-based solutions (one national, two regional, two niche)

2000-01 RESULTS

- A total of $1 28 billion was disbursed to primary producers
- $235.5 million was disbursed to agribusiness customers
- A CRM strategy was created in 2000-01 as the first step in making our corporate Customer for Life strategy operational.
- FCC's first CLI resulted in action plans at the district level and will be used to design a customer retention strategy operation
- FCC measured brand equity of the Corporation and its services with customers and agricultural operators and established benchmarks
- Total of $253.6 million was disbursed via alliances, including $15.7 million disbursed through the NEDFP
- FCC identified a strategic direction for ensuring that all customers receive high-quality service, no matter how they choose to interact with us (face-to-face, telephone, Internet)
- Implementation of FCC's e-business strategy began in 2000-01
- Two new fee-based solutions were introduced.
  - In May 2000, FCC launched an enhanced creditor life insurance program that includes accidental dismemberment and early payout options
  - Processing fees were added to personal property loans, allowing FCC to continue to offer competitive interest rates to customers
- Five new interest-rate products were launched in 2000-01 (two national, one regional and two niche):
  - National Enviro-Loan supports producers implementing environmental enhancements to their operations $3.9 million was provided to producers under this program.
  - AgriSuccess, a life-cycle planning initiative with business partners across Canada, encourages producers and agribusinesses to incorporate succession and other types of planning into their business operations
  - A pre-approved product targeted to the Quebec market was launched
  - Flexi-Hog loan helps producers plan for the cyclical nature of the pork industry. Producers borrowed $19.7 million through this loan product
  - A special loan for Saskatchewan producers impacted by flooding in 1999 developed in co-operation with the governments of Saskatchewan and Canada.
- A number of other products also are in development for release in the next fiscal year

OBJECTIVES 2000-01

Grow support for primary production and agribusiness.

- $1.3 billion in disbursements to primary production.
- $250 million in direct disbursements to agribusiness
- $250 million in disbursements through alliances.
- Improve customer retention

Offer expert knowledge to customers.

- Specialized knowledge will increase customer loyalty and improve brand equity as measured through corporate surveys

Increase options for service delivery.

- Customer Service Centre operational as a delivery channel and integrated into e-commerce.
- Increase disbursements via electronic channel.
- Business-to-business Internet loan processing to be provided to three alliance partners

Anticipate needs of the agricultural industry and respond with proactive product development.

- Achieve targets identified in business cases supporting new interest-based products introduced in 2000-01.
- Deliver five new interest-based and two new fee-based products At least one of these products will be Web-based
- Deliver 20 lifecycle planning seminars throughout Canada under the AgriSuccess initiative.
- Establish a business alliance with one First Nations group in each sales area

Process Effectiveness and Quality Improvement

Make it easy for customers to do business with us.

STRATEGIC INITIATIVES 2000-01

Continuously improve product and service delivery.

- Complete loan administration system enhancements by March 31, 2001
- Re-engineer the loan process by March 31, 2001, to realize an efficiency gain of 30 per cent.
- Develop the corporate service delivery channel strategy for implementation in 2001-02
- Implement an e-business strategy by March 31, 2001
- Introduce corporate-wide service levels and service standards by March 31, 2001
- Ensure equitable service to customers in the language of their choice in all designated offices by March 31, 2001

Transform information into knowledge.

- Ensure 98 per cent accuracy on completed data fields
- Ensure 100 per cent of required customer information fields are complete
- Develop and approve a corporate knowledge management strategy by March 31, 2001

2000-01 RESULTS

- Loan administration system enhancements implemented as far as technology allows
- In July 2000, a new lending policy was implemented as a result of re-engineered loan processes These enhancements saved 2,600 hours of field staff's time, allowing them to spend more time developing customer relationships. The remaining savings will be realized in the first quarter of 2001-02 with the implementation of technology enhancements
- Human Resources processes re-engineered and implementation of new processes initiated
- FCC began work on a corporate service delivery channel strategy and identified a strategic direction for ensuring that all customers receive high quality service, no matter how they choose to interact with us. The strategy will be refined in 2001-02
- Implementation of FCC's e-business strategy began in 2000-01
- Service standards were introduced for the following
  - Information Technology developed a framework for service level agreements and service improvement plans for two major lending applications
  - Risk Management implemented and successfully met service standards for approving large loan requests
  - Agri-Land implemented and successfully met service standards for provision of appraisals, valuations and loan concurrence

Financial Success

The foundation of continued customer support.

STRATEGIC INITIATIVES 2000-01

Ensure long-term viability by attaining the following financial targets in 2000-01:

- Efficiency ratio of 57 per cent
- Return on equity (ROE) of 6.6 per cent (to exceed Government of Canada's cost of capital)
- Return on assets (ROA) of 0.63 per cent
- Debt-to-equity ratio of 9.3 1

Treasury operations will be managed within approved risk limits

Measure risk through the use of a strategic credit risk model (SCRM) in order to ensure a managed approach that is neither conservative nor aggressive. SCRM score should be less than 70

2000-01 RESULTS

FCC significantly exceeded financial targets

- Efficiency ratio of 55 per cent
- ROE* of 8.4 per cent, exceeding the Government of Canada's cost of capital by 2.7 per cent
- ROA* of 0 89 per cent
- Debt-to-equity ratio of 7.6:1

The borrowing costs for 2000-01 were four basis points over the Government of Canada's cost of capital, an improvement of three basis points from the previous year

SCRM average score was 60, well within the managed range of 50 to 75

* *before income taxes*

- Employees in the 43 offices designated bilingual or "service by appointment" were trained to provide an appropriate level of customer service in both official languages. Each of these offices was audited to ensure that standards were met. FCC's fully bilingual Web site also ensures consistent service to all customers in both official languages. In 2000-01, FCC received no complaints on language of service.
- Measurement of data quality and field completion was implemented in the fourth quarter. Due to changes in the disbursement process, the measurement methodology will be revisited in 2001-02.
- Knowledge management strategy currently in development.

OBJECTIVES 2001–02

Continuously improve process effectiveness and operational efficiency.

- Re-engineered Human Resources processes implemented by September 30, 2001, with realized net efficiency gains.
- Engineer new business processes and redesign existing business processes, as required, in support of e-business implementation.
- Corporate efficiency ratio (expense/revenue) of 49 per cent.

Leverage technology to enable and sustain delivery of superior customer service offerings.

- Information technology infrastructure availability target of +99 per cent.
- All technology-related projects will be delivered within specifications.
- 100 per cent of service level targets achieved for all mission critical applications.
- Re-engineered Information Technology processes implemented.

Do it right the first time, all the time (continuous quality improvement as a business driver).

- 98 per cent accuracy on completed data fields.
- 100 per cent of required customer information data fields complete.
- Quality index developed, benchmarked and operational by October 1, 2001.

OBJECTIVES 2001–02

Ensure long-term viability.

- ROE of 8.2 per cent
- ROA of 0.78 per cent
- Debt-to-equity ratio of 9.4:1
- Cost-effective funding 10 basis points lower than Crown curve

Proactively manage risk.

- Maintain strategic credit risk model (SCRM) score on the portfolio of less than 70 (representative of a managed approach that is neither conservative nor aggressive).
- Manage operations within approved treasury risk limits.

Unique PEOPLE Leading our

Success

Left to right: Camrose office staff members: Linda Forre, Suzanne Barber, Allan Tovee, Wally Wrubleski, Dale Broker and Jon Hironaka.

Because of the dedication, expertise and passion of our employees, FCC will attain its vision to lead the way in agricultural financing.

One of FCC's responsibilities is to create an environment where all employees can develop to their full potential. FCC human resource initiatives focus on creating such an environment.

Human Resources Index

FCC listens to employees. The Corporation regularly conducts a corporate-wide Human Resources Index (HRI) that measures employee attitudes, level of satisfaction and commitment to organizational goals. The HRI is a key vehicle for allowing employees to provide direct feedback on the Corporation's direction and key strategies.

This year the response rate for the HRI was 83 per cent, up from 69 per cent for the previous survey. The results revealed a statistically significant increase in all of the 15 factors tested. This increase is mainly due to the work of dedicated employees developing recommendations and action plans to address issues identified by previous HRIs.

The positive trend reflects employee alignment with and support for FCC's direction and strategies. Management and staff will use this year's results to further focus human resource and strategic initiatives.

Learning and organizational development

FCC provides specialized expertise to all customers. One way of building and maintaining this expertise is to invest in training and development for employees.

FCC employees require specialized agricultural and financial training that is often not available externally. As a result, a significant amount of training is offered internally on subjects such as risk management, credit and market analysis, and leadership development.

The Corporation regularly tests for learning retention to ensure that employees are realizing the benefit of training This year, follow-up measurements of internal training revealed a retention rate of 83 per cent.

Recruitment and retention

FCC seeks to lead the way in agricultural financing by recruiting and retaining the highest calibre employees possible. In return for their commitment, FCC develops and rewards employees. As a result of this focus, the Corporation experienced a low voluntary turnover rate of 8.05 per cent.

FCC offers exceptional leadership development and succession planning programs. Through these programs, employees can effectively chart their professional development and the Corporation can ensure "bench strength" exists to maintain viable and consistent leadership for the future. To date, 71 managers have completed a leadership program developed and delivered by the Banff Centre for Management specifically for FCC employees.

FCC continued to evolve the Spectrum employee benefits program. Enrolment procedures were streamlined and employees can tailor benefits to their own personal and family needs.

FCC initiated a successful withdrawal from the *Public Service Superannuation Act* (PSSA) pension plan. Enrolment of all staff in the FCC Solstice pension plan took effect on July 1, 2000. FCC has now moved into the final stages of implementation. This last stage includes the transfer of PSSA funds into Solstice.

Every step of Solstice implementation was overseen by the FCC Pension Committee. This Committee includes members of senior management, the Board and employees elected by their colleagues from across the country. The Committee provides direction and a vital liaison function between FCC and the Board of Directors. It also offers employees the opportunity to participate in the management of their future retirement funds.

Official languages

As a federal Crown, FCC must not only provide customer service in both official languages, but also fully meet linguistic obligations to employees as defined by the *Official Languages Act*.

Officially, 11 of FCC's 100 offices are designated bilingual for language of work. The level of bilingual service, especially in the corporate office, continues to increase as employees identify their desire to work with their colleagues and customers in both official languages.

In designated offices, all communications, training and software are available in both English and French. Management continues to take steps to ensure that employee-manager interactions, especially for development and performance appraisal issues, are in the employee's official language of choice.

FCC encourages employees to participate in language training and invested $176,848 in various training initiatives over the past year that involved nearly 10 per cent of FCC's work force – from office assistants to vice-presidents. This not only helps ensure that the Corporation is a leader in offering bilingual services and employment, it also helps build a sense of teamwork, enhances morale and provides employees with additional development opportunities. As a result, customers can choose to do business with the Corporation in their official language of preference, in offices designated bilingual for service to the public.

Diversity

FCC recognizes and celebrates the diversity of employees. From coast to coast, FCC employees strive to understand and use their differences to create innovative solutions for customers.

FCC regularly collects employee profile data and maintains a databank on representation from designated groups, in compliance with *Employment Equity Act* guidelines. Information on this database contributes to FCC's recruitment strategy.

In 2000, FCC employees participated in a national Diversity Advisory Committee and four sub-committees – each focusing on different designated groups. These committees helped raise awareness of diversity throughout the Corporation and lead the change in attitudes to help build a greater commitment to a diverse workplace. A highlight of this year's diversity initiatives was the Make It Work! employment equity and diversity conference in Regina in October 2000. Open to the public, this workshop-based conference demonstrated FCC's commitment to promote diversity within the Corporation and to learn from professionals in the greater Saskatchewan community.

FCC strives to develop innovative human resources initiatives to make the Corporation an employer of choice and to create long-term value for customers.

FCC's BOARD of

Directors

FCC's Board of Directors is responsible for developing and approving the strategic direction of the Corporation. Working closely with the Senior Management Team, the Board ensures that FCC continues to meet, exceed and anticipate the needs of agricultural producers and small- to medium-sized agribusinesses. The individual members bring relevant experience and a dedication to agriculture to the performance of their roles.

Rosemary Davis, Chair

Chair since June 20, 2000

Director since December 19, 1995

Ms. Davis is the owner/operator of Tri-Country Agromart Ltd. in Trenton, Ontario. In addition to her involvement with FCC, Ms. Davis is a Director of the Trenval Development Corporation and Chair of its Agriculture Committee. She is also active in many local and provincial agricultural committees and associations and is currently serving as a Director of Loyalist College and as a member of the Advisory Committee of Shurgain Foods. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership to the Ontario Institute of Agrologists.

Edward W. Clark

Director since May 28, 1996

Chair, Corporate Governance Committee

The owner and operator of a beef and forage farm in Miscouche, Prince Edward Island, Mr. Clark has been directly involved in agriculture for more than 40 years. His work as a 4-H leader over a 20-year period was recognized with a Friend of 4-H award in 1995. In addition to work with the P.E.I. Junior Farmers, the Federation of Agriculture and P.E.I. Shorthorn Breeder's Association, Mr. Clark was a member of the P.E.I. Legislative Assembly from 1970 to 1996, serving in that time as Minister of Agriculture and Forestry and as Speaker.

Rashpal Dhillon

Director since June 6, 1995

Mr. Dhillon is the President and Chief Executive Officer of The Richberry Group of Companies based in Richmond, British Columbia. He is also General Partner and Chief Executive Officer of a second cranberry operation, Pitt Meadows Farms Ltd., and Director/Owner of the Richview Golf Centre. Mr. Dhillon has served as a Director/Secretary of the Richmond Farmers Institute and the B.C. Cranberry Marketing Board. He has also been a Director/Vice-President of the B.C. Blueberry Co-operative and of the Richmond Foundation. He presently serves on the Board of the B.C. chapter of the Canadian National Institute for the Blind.

FCC Board of Directors

Left to right: Rosemary Davis, Edward W. Clark and Rashpal Dhillon.

Warren Ellis

Director since April 4, 1995

Warren Ellis Produce, in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley, wheat and feeder cattle. Mr. Ellis is President of O'Leary Potato Packers Ltd, an operation that processes and markets potatoes and potato products throughout the world. In 1994, he was the Atlantic Region honoree in Canada's Outstanding Young Farmers program. In addition to his continued support of the Terry Fox Foundation, Mr. Ellis has served his community as a Board member of the Western School Board and the P.E.I. Lending Authority and as chairman of the O'Leary Community Sports Centre and the Potato Blossom Festival.

Donna Graham

Director since September 26, 2000

Ms. Graham is a managing partner of Graham Farms Ltd., a grain and oilseed operation near Vulcan, Alberta. In the past, she has acted as an advisor on agricultural issues to various federal and provincial government departments and served on the boards of Alberta Women in Support of Agriculture and the Canadian Farm Women's Education Council. She has received the Alberta Government Recognition Award for her contribution to the development of recreation and culture in the province and a national 4-H award for her dedication to the 4-H movement.

Eleanor M. Hart

Director since May 2, 1995

Chair, Human Resources Committee

Board representative on FCC's joint Pension Committee

A farm partner and owner of Lokoja Farms in Woodstock, Ontario, Ms. Hart's previous experience in the industry includes serving as a Director of the Oxford County Federation of Agriculture and as a member of the Agricultural Research Institute of Ontario. Ms. Hart is also a Past-President of the Ontario Home Economics Association and a member of the Canadian Home Economics Association.

Maurice Kraut

Director since June 28, 1999

A co-owner and operator of a cattle and grain farm enterprise, Mr. Kraut has his own firm, Agriculture Consulting, in Winnipeg, Manitoba. He has acted as a livestock marketing and policy analyst for Alberta Agriculture, Food and Rural Development, and has taught policy and marketing at the University of Manitoba. Mr. Kraut also served successful terms as a Research Director for the Canada Grains Council and as Assistant Deputy Minister of Agriculture in Manitoba.

FCC Board of Directors
Left to right: Eleanor M. Hart, Maurice Kraut, Donna Graham and Warren Ellis.

Marie-Andrée Mallette
Director since June 16, 1995
Chair, Audit Committee
Ms. Mallette operates a large-scale commercial crops and coloured beans operation in Quebec. A lawyer for 15 years, Ms. Mallette is Regional Director of the Quebec Business Women's Association and founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She also shares her own experience in exporting with new producers. Ms. Mallette is active with the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power and the Canadian Bar Association.

Joan Meyer
Director from January 11, 1995 to September 1996, reappointed on September 26, 2000
Ms. Meyer is a co-owner and operator of a mixed farming enterprise near Swift Current, Saskatchewan. She also owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She has served her community through many organizations including the Dr. Noble Irwin Healthcare Foundation, the Multicultural Council of Saskatchewan, Luther College in Regina, Southwest Crisis Services Line and the Southwest Recreation Association.

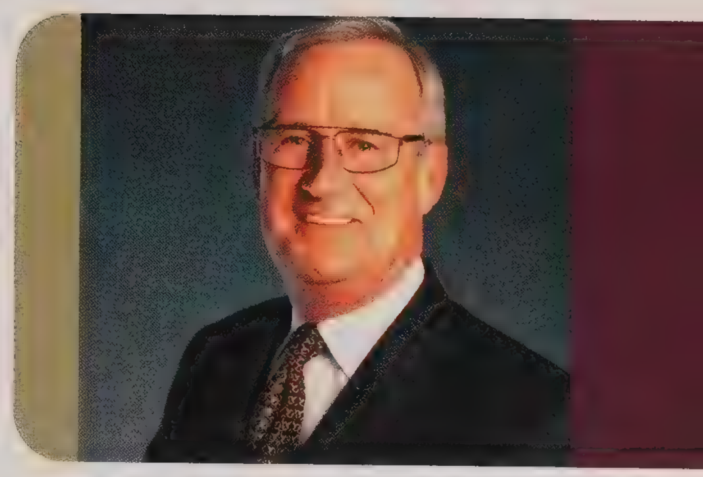
John J. Ryan
Director since September 1, 1997
Mr. Ryan has served FCC as President and Chief Executive Officer since September 1997. He is currently a member of the Board of Trustees of the Canadian Athletic Foundation, the Board of Directors of the Hospitals of Regina Foundation and the Foundation of the Adult Learning Centre, also in Regina. Mr. Ryan is an avid supporter of the United Way's local campaigns, serving as Vice-Chair in 1999 and as Chair in 2000.

FCC Board of Directors
Left to right: Joan Meyer, Marie-Andrée Mallette and John J. Ryan.

Marilyn Marie Scott

Director since October 24, 1996

A partner in Scott & Weber Law Firm of Humboldt, Saskatchewan, Ms. Scott specializes in agriculture law, wills and estates. She is a member and past Director of Women Entrepreneurs of Saskatchewan and past Chairperson of the Humboldt & District Chapter. In addition, Ms. Scott is a member of the Humboldt District Chamber of Commerce, the Canadian Bar Association and the Saskatchewan Trial Lawyers Association.



Germain Simard

Director since June 6, 1995

Mr. Simard co-owns, with his two sons, the Ferme de l'Anse Enr., an operation that includes dairy production, field crops and agro-tourism with on-farm accommodations. From 1971-91, he was President of the Union des producteurs agricoles (UPA) of the Saguenay-Lac-Saint-Jean region. Since then, Mr. Simard has served as Executive Vice-President of the Fédération des Agricotours du Québec and as President of their Saguenay-Lac-Saint-Jean chapter. He is currently a member of the agri-food co-operative Nutrinor and of the Caisse populaire Desjardins.

FCC Board of Directors
Marilyn Marie Scott and Germain Simard

Donald W. Black

Past Chair

Mr. Black served as Chair of FCC's Board of Directors from January 1995 to May 2000. While the Board conducted its search for a new President and Chief Executive Officer (CEO) in 1997, he also served as acting CEO for nine months.

During his tenure as Chair, Mr. Black brought vision, focus and vitality to the Corporation. He was actively involved in improving corporate governance, restructuring operations to better meet customer needs and ensuring that FCC offered competitive compensation and benefits to employees. He strengthened the business focus of FCC's operations and encouraged the Corporation to work toward financial self-sufficiency.

A strong believer in the business sector's obligation to support the community at large, Mr. Black encouraged FCC's membership in the *Imagine* program of the Canadian Centre for Philanthropy. His personal involvement in many community groups reflected employees' commitment to serve communities across the country in new and innovative ways.

Mr. Black resigned from the Board in order to concentrate on his business interests, in particular Greystone Capital Management Inc., the Regina-based independent investment counseling firm of which he is President and Chief Executive Officer. The Board, Senior Management and staff thank him for his commitment and leadership in making FCC a stronger, more focused organization.

FCC's SENIOR MANAGEMENT

Team

Dedicated to customer service

FCC's Senior Management Team (SMT) works with the Board of Directors to establish and implement the Corporation's strategic direction. These dedicated professionals, with diverse views and experience, ensure FCC maintains its focus on meeting, exceeding and anticipating customer needs. With the approval of the Chief Executive Officer (CEO) and the Board of Directors, SMT sets the corporate priorities and acts to achieve FCC's objectives.

Every member of the SMT is committed to effective and inspiring leadership and has participated in training to further develop these skills. They respect the guidelines of the *Financial Administration Act* by acting in good faith and exercising care, skill and diligence in their decision-making and business activities.

They lead by example, adhering to the highest ethical standards of business, professional and personal conduct. They are bound by the Employee Conduct and Ethics Policy to avoid conflicts of interest. In order to enhance FCC's competitive advantage by providing customers with access to services in both official languages, most possess or are improving their second-language skills.

Left to right: Greg Honey, *Vice-President, Human Resources;* Nelson Tkatch, *Vice-President, Information Technology;* and John J. Ryan, *President and Chief Executive Officer.*

New responsibilities

The SMT listens attentively to customers and closely studies the marketplace in order to ensure that FCC's products and services meet the needs of today's producers and agribusiness operators. In 2000-01, this dedication to the highest quality customer service made it possible for the Corporation to expand its services to include E-business and Aboriginal Business.

Greg Honey was hired as Vice-President, Human Resources and Administration when Terry Kremeniuk obtained the position of Vice-President, Aboriginal Business. Also new to the team in 2000-01 were Rick Hoffman, Vice-President and Controller, and Nelson Tkatch, Vice-President, Information Technology.

Following changes made to the corporate structure on April 1, 2001, an executive search was initiated to fill the position of Vice-President, Risk Management.

Left to right: Louise Neveu, *Executive Vice-President and Chief Knowledge Officer;* Dale Canham, *Vice-President, General Counsel & Corporate Secretary;* and Shelley Legin, *Vice-President, Strategy and Communications.*

Left to right: Terry Kremeniuk, *Vice-President, Aboriginal Business;* Janet Wightman, *Executive Vice-President and Chief Operating Officer;* Greg Stewart, *Vice-President, Agribusiness and Western Operations;* Kellie Garrett, *Vice-President, Marketing, Products and Brand;* and André Tetreault, *Vice-President, Eastern Operations.*

Compensation and decision-making

All executives, with the exception of the CEO, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the CEO's salary and benefits. All receive a variable component linked to the performance of the Corporation, the business unit and the individual. In 2000-01, the salary range for the CEO was set at $163,800 to $204,800. The salaries of the Executive Vice-Presidents ranged from $130,825 to $242,820. Compensation for Vice-Presidents ranged from $108,590 to $143,735. Total cash compensation paid to SMT was $2,490,909.

In addition to their management responsibilities, SMT members provide advice to the CEO and the Executive Committee, a subset of the full SMT and the principal decision-making authority of the Corporation. This committee acts on broad strategic direction and establishes corporate priorities. The following officers are members of the Executive Committee:

- the President and CEO;
- the Executive Vice-President and Chief Financial Officer;
- the Executive Vice-President and Chief Knowledge Officer;
- the Executive Vice-President and Chief Operating Officer;
- the Vice-President, Human Resources and Administration; and
- the Vice-President, Information Technology.

Left to right: Don Stevens, *Vice-President and Treasurer;* Marshall Stachniak, *Vice-President, Audit and Business Process Re-engineering;* Rick Hoffman, *Vice-President and Controller;* and Moyez Somani, *Executive Vice-President and Chief Financial Officer.*

Customer Success

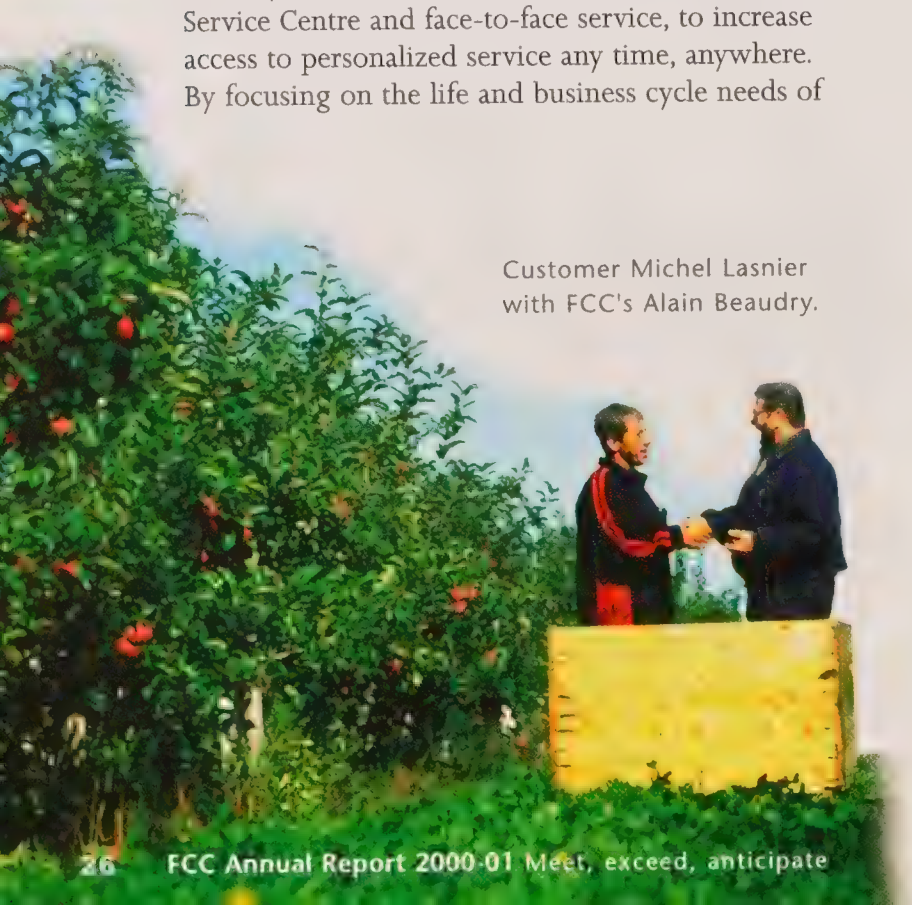
Listening creates solutions

At FCC, we are interested in relationships with customers that last a lifetime, not just the life of a loan. We work hard to understand our customers and recognize that every person has needs unique to their individual operation. Our specialized agricultural expertise and long-term commitment to customers are the cornerstones of FCC's reputation.

In 2000-01, FCC began developing a corporate strategy to help us meet our long-term commitment to customers. The Customer for Life strategy is about doing more for our customers throughout their entire life and business cycle – from start-up to retirement.

The strategy will provide the framework for a more comprehensive approach to serving customers through new partnerships and services. If amendments to the *Farm Credit Corporation Act* tabled in Parliament in April are passed, FCC will be able to increase the depth and variety of financial and business services it offers. We are integrating delivery channels, including the Internet, Customer Service Centre and face-to-face service, to increase access to personalized service any time, anywhere. By focusing on the life and business cycle needs of our customers, FCC will become a more integral partner with our customers.

Customer Michel Lasnier with FCC's Alain Beaudry.



Last fiscal, FCC commissioned studies to measure the quality of our relationships with customers and reputation in the wider community. A national research company, Ipsos-Reid, conducted a customer loyalty index as well as a brand equity study.

For our first-ever Customer Loyalty Index, we received a response rate of 98 per cent from our customers, an unheard-of rate, according to Ipsos-Reid. We surveyed 1,800 of our customers across Canada. Their responses to key measures of customer loyalty indicated that 73 per cent of FCC customers thought they would recommend FCC in the coming year. The same percentage stated FCC was their first choice for agricultural financing. These results can be linked to customer service provided by our frontline staff, who received scores of 6.0 to 6.5 on a seven-point scale for quality of service, trust and responsiveness.

We also wanted to gain a better understanding about how we are perceived by the people who live and work near our customers. For the brand equity study, Ipsos-Reid interviewed 1,532 current and potential customers, equipment dealers and agricultural organizations. The findings from both surveys revealed that FCC has a great reputation with current customers because of the personalized service and agricultural expertise our employees provide. The findings also showed that those who are not customers are unfamiliar with FCC's services and mandate and do not necessarily understand the extent to which FCC helps the agricultural industry move forward.

FCC plans to use the Customer Loyalty Index and the brand equity study findings to continuously improve our relevance and service to customers, as well as to improve our contribution to the agricultural industry.

ABORIGINAL BUSINESS

Development

According to the 1996 Census, more than half of aboriginal people in Canada live in rural areas – and 68 per cent of them are under 30 years of age. This is the fastest growing demographic group in rural Canada. Agriculture can be a key component in enhancing the livelihood and economic growth of aboriginal peoples and communities.

FCC has specialized expertise in agriculture and agricultural finance and believes in the importance of contributing to the establishment and long-term viability of agriculture. First Nations and Métis peoples are building an increased presence in the agriculture industry. FCC believes that by providing financing and business services to this segment of the agricultural sector, we can contribute to their success and support new entrants to agriculture.

FCC established an aboriginal business function in 2000. It has developed a number of strategies to contribute to the financing of aboriginal agriculture. A key strategy will involve partnering with all levels of government, organizations such as the Aboriginal Agricultural Capital Corporations and other financial institutions serving First Nations and Métis farmers.

Over the next few decades, aboriginal communities are poised to grow both demographically and economically. FCC's aboriginal business strategy aims to create the internal infrastructure and policies to provide the level of service, expertise and understanding on which the Corporation has built its reputation.

The fastest **growing** demographic **group** in rural Canada

Profiles

A passion for promoting Island agriculture

Derek and Debbie Scott

Derek & Debbie Scott
Saanicton, British Columbia

When Derek and Debbie Scott purchased 12 acres near Saanichton, on Vancouver Island, in 1986, they were determined to earn a full-time living off the land. Thanks to hard work, determination and innovation, the couple's dream has come true. "When we came here, there was a small orchard of apples and peaches," says Debbie. "We've diversified beyond those fruits to include strawberries, blackberries, kiwi fruit and vegetables. We now farm 60 acres."

These products are sold at their farm market, and the kiwi fruit is also sold to wholesalers. They have added a bakery to sell pies and bread. The continued growth of their operation led them to seek financing from FCC.

"Derek and Debbie were looking for an organization that would share their vision," says Cam McDiarmid, FCC Account Manager. "They were organizing agricultural promotional events, which create new markets for their products and those of their neighbours."

The Scotts' foray into organizing events began 10 years ago when they hosted an Octoberfest celebration. "October was a slow period because of the colder weather, but we had products to sell," says Debbie. That led them to create an annual Octoberfest which features hay rides, a haunted house, 4-H projects, antique displays and much more.

The Scotts now host Taste of the Islands, where Vancouver Island food and beverage producers provide samples; and this year they will host Feast of Fields, which features products made from British Columbian commodities. They also intend to partner with Victoria hotels to provide tours for the conference market. "We believe there's a tremendous opportunity to share the benefits of the farm with people who live in the cities," says Debbie.

Quick financing for cattle producers

Cattlemens Financial Corp.
Edmonton, Alberta

In 1996, John Meston, FCC's Assistant Vice-President, Alliances West, noticed a gap in existing finance programs for feeder cattle. Many producers purchasing cattle at auctions required specialized financing with a quick turnaround time. This same trend was also spotted by Bill Grieve of Nilsson Bros. Inc., a company with interests in ranching, auction marts and processing plants.

The two began talking and before long their discussions led to the creation of Cattlemens Financial Corp. (CFC) to provide loans to these producers. CFC staff work with potential customers and make field visits to assess facilities, feed, herd health and management skills. FCC provides the financing.

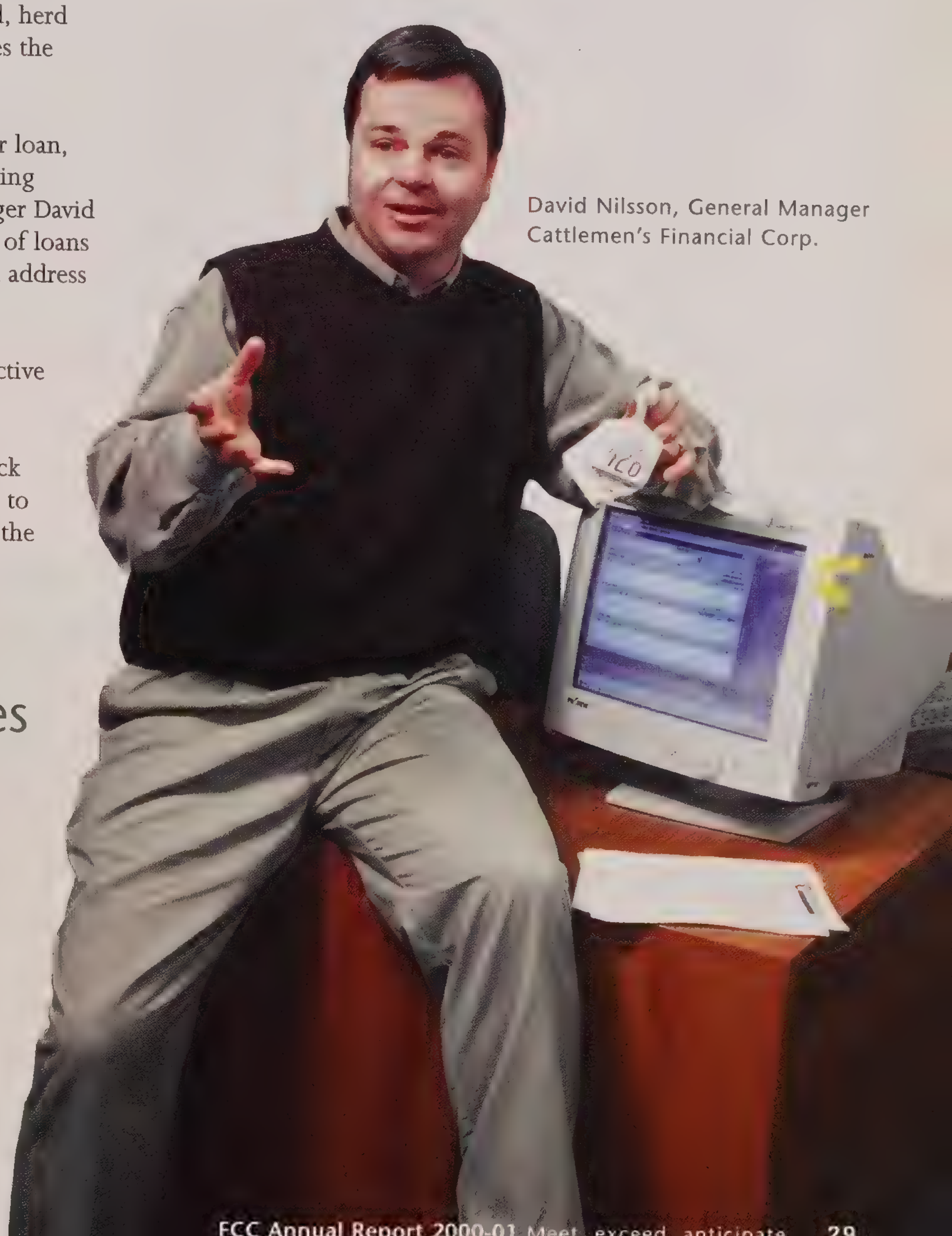
"We initially started with one type of feeder loan, but now we offer six different types, including breeder loans," explains CFC General Manager David Nilsson. "We wanted to diversify the types of loans we offer to better meet customer needs and address the risks in the industry."

Loans offered through this alliance are attractive to producers because, other than a deposit, customers only pledge the animal being financed for security. Proceeds from livestock sales are used to pay off the customer's debt to the alliance and the surplus is forwarded to the customer.

"It really is a win-win alliance for all involved," says Marcel Lemire, FCC Account Manager. "The CFC/FCC alliance offers financing on the farm and at auction marts and is increasing its customer base."

In 2000-01, the staff in FCC's Customer Service Centre, located in Regina, processed more than 12,500 transactions for alliance partners including CFC.

"Diversify the types of loans to better meet customer needs."



David Nilsson, General Manager
Cattlemen's Financial Corp.

Skilled management fuels growth

Harman Poultry
Saskatoon, Saskatchewan

"When my father and I started our poultry operation in 1965, we had 5,000 birds and we produced and marketed about 8,500 boxes of eggs annually. Now we do that in a day," says Bert Harman, the owner of Star Egg and Harman Poultry Farm.

That growth has been fueled by skilled management, aggressive marketing and financial assistance from FCC. In 1978, Harman purchased Star Egg, a Saskatoon company that buys eggs from 54 Saskatchewan producers and packages them for sale throughout western Canada.

Five years ago, to increase production, he decided to connect the original facility to an adjacent building and purchase a nearby warehouse. "It was a very good move to work with FCC since they have a strong understanding of agribusiness and our needs," explains Harman.

With a good working relationship established, Harman received FCC financing this year to construct a new barn at Harman Poultry Farm, near Prince Albert. The company wanted to amalgamate three aging barns into one facility. The new barn contains state-of-the-art ventilation, heating, water and feeding systems that Harman can monitor via his computer in Saskatoon.

"We have worked with the company as it has progressed over the years," says FCC Account Manager Gary Rault. "We are pleased to have played a role in helping this customer build his vertically integrated operation."

"We used to **produce** 8,500 boxes of eggs annually. Now we do that in **a day**."

Bert Harman, Owner
Star Egg and
Harman Poultry

Flexi-Hog tailor-made for Manitoba operation

Rosegrove Farms
Landmark, Manitoba

When Rosegrove Farms Inc. wanted to assume the ownership of a neighboring 1,500 hog finishing barn in 1999, the decision to approach FCC for financing was relatively easy. FCC already held the loan on the barn from the previous owner, so company president Ray Plett elected to continue with FCC.

The next time the farm near Landmark, Manitoba, required financing, the decision was even easier. FCC had just introduced the Flexi-Hog program, which seemed tailor-made for Rosegrove Farms' plans to construct a 4,000 hog finishing barn. "Since they are independent producers in a volatile industry, they were interested in the program," explains FCC Account Manager Charles Koch. "This loan provides options for producers to pay interest only for periods of up to 12 months to cope with commodity price cycles. It's designed to assist farms like this one."

Plett says that FCC's financial terms and knowledgeable staff convinced the company to make FCC its lender of choice. Through this association, Rosegrove Farms, which started in 1998 with a 600 farrow-to-finish hog operation, has experienced tremendous growth. "Their terms have been very good and provide flexibility for us to meet our long-term credit needs," he says. "In fact, we've moved most of the loans from our poultry and grain operations to FCC as well."

"**Independent** producers in a volatile **industry**, they were **interested** in the program."

Tim Kroeker, Vice-President, and Ray Plett, President, Rosegrove Farms Inc.

Young farmer gets started with FCC

Greg Devries
Dresden, Ontario

Three years ago, Greg Devries realized he needed more than one drill to keep up with demand for his custom-planting services. After pricing out a new drill, he approached his FCC Account Manager to arrange financing. "When the paperwork was ready, the rain had just broke so I wanted to get back in the field. The Account Manager agreed to meet halfway into town, I signed papers, and he took it to the implement dealer. I'll always remember that incident because I was busy and that saved me half a day," Devries recalls.

It's for reasons like this that the Dresden, Ontario, area farmer chose FCC as his lender. His experiences stem back to 1989 when he wanted to purchase his grandparents' 50 acre farm. Devries went to FCC because of its long-standing relationship with his family and expertise in agriculture. The Corporation also was flexible enough to work with someone who was only 18 years old at the time.

Along with his parents, Devries now farms approximately 750 acres of commercial and seed corn, soybeans and wheat, and is expanding into peppers. He has learned techniques from other farms by working as a crop insurance claims adjuster. Devries keeps abreast of industry issues and policies by serving on several committees. For example, he serves as a director on the Ontario Soybean Growers Association. He recently completed the Advanced Agricultural Leadership Program, an intensive two-year educational program.

FCC Account Manager Chris Gass has worked with Devries since he started farming. "Although he was young when he came here, we liked his attitude towards farming," says Gass. "He thinks things through and is not afraid to come in, discuss his options and ask for assistance. He's certainly an indicator that there is a future for young farmers."

"He's certainly an **indicator** that there is a future for young **farmers.**"

Left to right: Charles Devries, Jennifer Atkinson, Jennie Devries and Greg Devries.

Helping producers meet environmental standards

Barrette Farm
Coaticook, Quebec

The Barrette farm near Coaticook, in southcentral Quebec, has been passed down for three generations. Proud dairy producers, brothers Bernard and Réjean Barrette purchased the family farm in 1989.

Their operation includes 106 dairy cows and 95 head of replacement stock. To meet provincial environmental standards, they needed to build a new manure storage facility. However, they needed a loan that delayed repayment until construction was complete. Like many other Quebec dairy producers, the business partners relied on FCC's Enviro-Loan to meet their financing needs. "We recommend it to other producers," Réjean insists. Thanks to the loan's flexible features, the Barrettes had the option of postponing principal payments until construction was successfully completed in the fall of 2000.

In 2001, the Barrettes plan to build a technologically sophisticated barn for the housing of replacement stock. This free-stall facility will allow them to reduce their workload, improve the development of the livestock quality and consequently increase production. Bernard and Réjean are using FCC's Farmbuilder Construction Loan to finance this project.

Over the years, the Barrette farm has become increasingly competitive. Since 1995, the Barrette brothers have relied on their close relationship with FCC Account Manager Louis Payette for the family farm's financing and for advice during its expansion phase. "With their long-range vision, Bernard and Réjean have been able to expand their facilities and protect the environment," says Payette.

Bernard and Réjean Barrette

Island couple has succession plan

Pieter and Jetty van Nieuwenhuyzen
Oyster Bed Bridge, Prince Edward Island

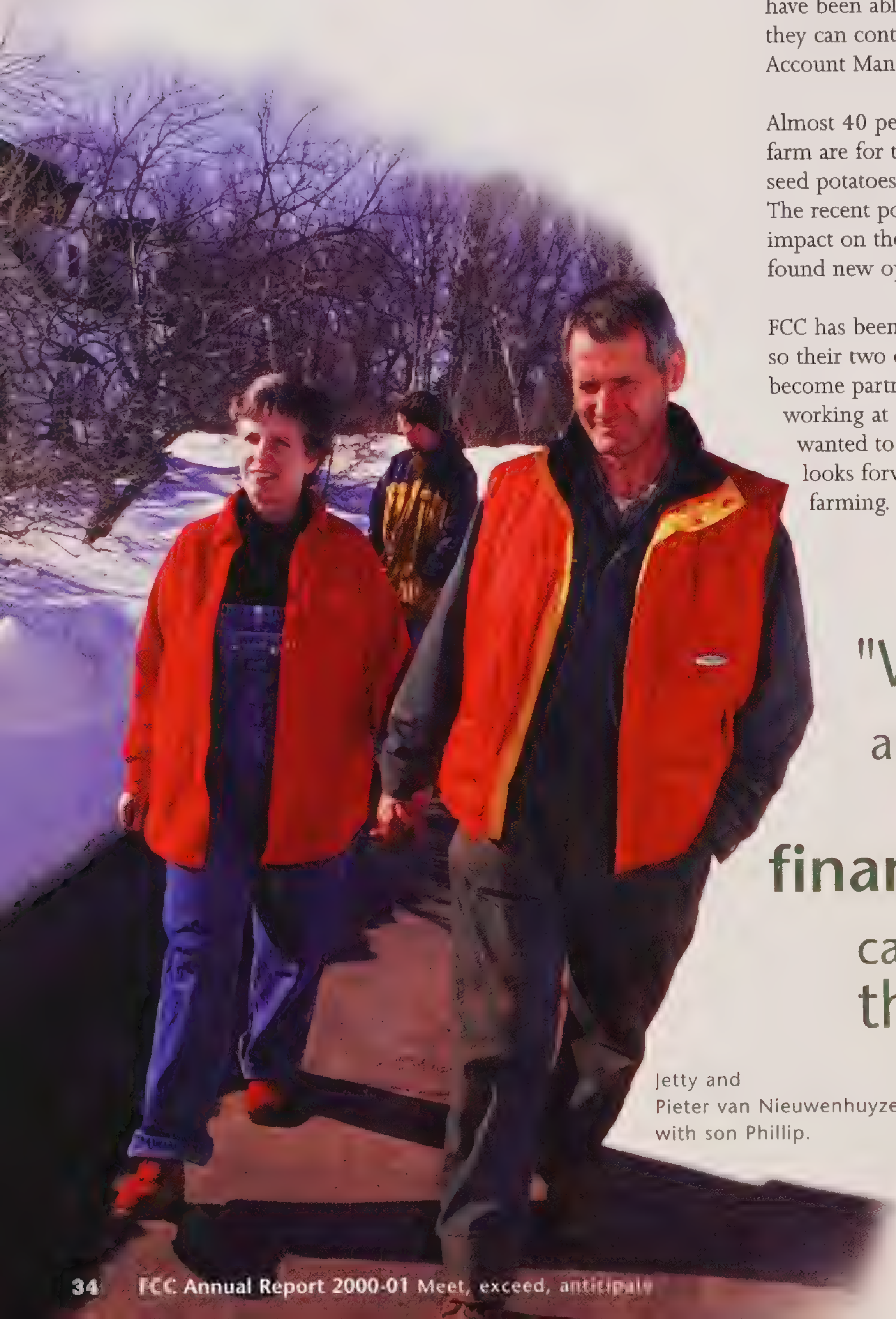
A passion for growing potatoes convinced Pieter and Jetty van Nieuwenhuyzen to emigrate from their mixed farm in the Netherlands to the heart of Canada's potato belt, Prince Edward Island, in 1982. "It has been good all along," says Pieter. "We don't regret our decision at all."

The family purchased a small farm of about 100 acres and has slowly expanded it to 1,250 acres. The farm had never grown potatoes before, so the van Nieuwenhuyzens invested in a new warehouse and equipment. FCC provided the financing that allowed them to diversify their operation.

"We've been with the family since they initially expanded their operation. As they've grown in size, we've been able to work with them to achieve remarkable success. Now that their children have expressed an interest in joining the operation, we have been able to provide additional financing so they can continue the family tradition," said FCC Account Manager France Vos.

Almost 40 per cent of the potatoes grown on the farm are for the french fry market, 10 per cent are seed potatoes, and the rest are sold to wholesalers. The recent potato wart trade issue has had an impact on their American markets, but they have found new opportunities in Quebec and Ontario.

FCC has been assisting with their succession plans so their two oldest sons, Willem and Rit, can become partners in the operation. "They had been working at other jobs and decided that they wanted to return home," says Pieter. The family looks forward to a long-term future in potato farming.



"We have been able to provide additional financing so they can continue the family tradition."

Jetty and Pieter van Nieuwenhuyzen with son Phillip.

COMMUNITY

Investment

Giving back to our community

During the past 41 years, FCC has not only invested in agriculture, but also in rural communities. The Corporation has a history rich with success stories of people helping people.

As a member of the Canadian Centre for Philanthropy's *Imagine* program, FCC is committed to donating one per cent of pre-tax income annually to charitable and not-for-profit community organizations. Through this commitment, FCC is innovative in finding new ways to give back to communities across Canada. Donations are made through financial resources, services and gifts in kind. The Corporation adds value to these donations by supporting employees' endeavours to volunteer their time and energy.

In addition to hundreds of local community initiatives, FCC works in partnership with many national organizations dedicated to improving quality of life in rural Canada and contributing to the agricultural community. Through our national community investment program, we are focusing on activities that raise awareness of farm safety as well as food and hunger issues.

Rheagan Schott presented with a 4-H scholarship by Cathy Sandercock, Morden, Manitoba.

Community partners

FCC is proud to support the following initiatives across Canada:

Canadian 4-H Council

Once again this year, FCC was proud to partner with the Canadian 4-H Council to offer rural young people a chance to win one of 10 provincial scholarships to help them pursue post-secondary education. For the 2000 4-H scholarship program, applicants were asked to create a plan for a project that would benefit their community. The entries showed tremendous creativity and commitment. Through the 4-H scholarship program, FCC can help young people become tomorrow's community leaders.

Canadian Coalition for Agricultural Safety and Rural Health (CCASRH)

CCASRH was established in 1993 by a coalition of agencies from across Canada to address problems related to farm safety and rural health. FCC shares the coalition's concern for the quality of life of people living and working in rural communities across Canada.

"Use ROPS and Wear Your Seat-belt"

The 2000 National Farm Safety Week campaign saw FCC join forces with the Canadian Federation of Agriculture (CFA) and CCASRH to promote a safer workplace for Canadian farmers and their families. The campaign focused on preventing tractor rollovers and highlighted the need for rollover protective structures (ROPS) and seat-belt protection on tractors. In March 2001, FCC again partnered with these two organizations as the major corporate sponsor of Canadian Agricultural Safety Week that focused on preventing tractor runovers.

FCC employees Alison Drew, Scott Yule, Michèle Bouvier and Brenda Stasuik helped build the CANstruction apple.

Building healthy communities across Canada in 2000-2001

At FCC, investing in our community goes beyond a financial contribution. We encourage our employees to seek opportunities for volunteerism and participation. Our employees are eager to roll up their sleeves and get involved in the communities they serve. The following local stories reveal how employees across the country have been enthusiastic volunteers and ambassadors in their communities.

Celebrating World Food Day in Abbotsford, B.C.

FCC Abbotsford office employees recognized World Food Day on October 16 by donating a steer to the Abbotsford Food Bank. The steer was purchased from a local 4-H member, resulting in a donation of 2,100 meat servings. Meat donations are a rare thing for food banks because of the costs involved.

FCC takes a giant bite out of hunger

In December 2000, FCC Corporate office staff participated in CANstruction, a community event held to raise funds for the Regina and District Food Bank. Participants were required to build structures completely out of canned, boxed or bagged food items. For the second year in a row, FCC was presented with the Jurors' Favourite Award for our Take a Bite out of Hunger Apple. FCC employees and community partners built the giant apple out of 6,500 cans of salmon and 500 packages of noodles and snack chips. This year's event raised more than $52,000 including 28,500 pounds of food for the Food Bank.

Food for thought. . . FCC's Atlantic offices give to school breakfast program

Countless medical studies confirm that children cannot learn on an empty stomach. Unfortunately, many children go to school hungry. FCC's Atlantic offices set aside $5,000 every year to help fund school breakfast and milk programs in the Atlantic provinces. FCC recognizes that children need a proper breakfast to start their day and to succeed in school.

Canadian Farmers with Disabilities

A disabling accident can dramatically change life on the farm. Canadian Farmers with Disabilities (FWD) provides support for farm families who have experienced such accidents. This group has a further mandate to educate the public about farm safety. FCC works closely with FWD and its provincial chapters and sponsors several of the group's events and initiatives. FWD also served as a tremendous resource in the development of FCC's Creditor Life Insurance program, which provides our customers with accidental dismemberment coverage.

United Way

In 2000, FCC led the way in employee giving in Regina and set the stage for a record-breaking year. With FCC President and CEO John Ryan at the helm as the Regina United Way Campaign Chair, Corporate Office raised nearly $90,000 for the 2000 campaign. The final tally far exceeded FCC's goal. The Regina United Way presented FCC with the Quantum Leap Award, given to the team that shows the most dollar growth in a campaign. In total, employees across the country raised over $143,000 for the United Way through donations and special fundraising events.

FCC's NEW

Products

Financing for today's producers

FCC understands agricultural producers and their industries like no other lender. For 41 years, we've worked closely with Canadian producers and, more recently, agribusinesses to develop the financing solutions they need to succeed. This year, we introduced three new national products based on customer needs.

Flexi-Hog gives producers more options

A little flexibility can go a long way for a hog producer's operation.

That's the idea behind FCC's Flexi-Hog Loan. With this loan, producers can take up to three one-year principal vacations. The loan is designed to help producers maximize their cash flows in the cyclical pork industry. Flexi-Hog is designed for independent and smaller producers who can proactively manage their operations' finances by using the vacations as a cushion during downturns.

The loan was launched nationally in Brandon, Manitoba in May 2000. FCC staff in southern Manitoba first suggested a flexible financing package for hog producers after discussions with FCC customers who wanted a loan that addressed this industry's price cycles.

Enhanced creditor life insurance

At FCC, we take the health and safety of farm families seriously. In October 2000, we introduced enhanced creditor life insurance to current and new customers through our carrier, Clarica Life Insurance Company. In addition to life insurance, the new program provides customers with accidental dismemberment coverage that includes an early payout option in case of terminal illness. This improved coverage is among the best in the industry.

Enviro-Loan

In February 2001, FCC launched the first national agricultural loan focused on the environment. This unique product allows producers and agribusiness operators to be proactive with long-term environmental planning, sustainable agricultural practices and stewardship of land and water resources. Customers – for the most part, livestock and dairy producers – can defer principal payments for up to 12 months while they improve their operations in accordance with sound land management principles and provincial environmental legislation. Funds are disbursed in increments during construction, thereby reducing interest costs. The Enviro-Loan was first introduced in Quebec in June 2000.

Solutions

FCC's products and services are designed to help producers and small- to medium-sized agribusinesses grow and succeed. Flexible features, including multiple interest rate and payment options as well as a choice of amortization period, are available on all FCC's loans. We work with our customers to ensure our loans meet their needs.

Real property loans

FCC provides fixed and variable interest rate terms of up to 20 years and amortization periods between three and 29 years on long-term loans. Also available are FCC's 5+10, 7+10 and 10+10 loans, which offer an annual 10 per cent prepayment of the original loan amount on five, seven and 10 year fixed terms to be applied directly to the principal not due, with no prepayment fee at anniversary dates.

Personal property loans

FCC's Personal Property Loan is ideal for purchasing livestock, quota and new or used equipment. Open and closed terms are available for periods of between two and seven years, with amortization up to 10 years.

Farmbuilder Construction® loan

This flexible product provides interim financing for any type of building project eligible for FCC financing. Payments are not required until the project is complete, for a maximum of 18 months. Funds are disbursed as needed during the project.

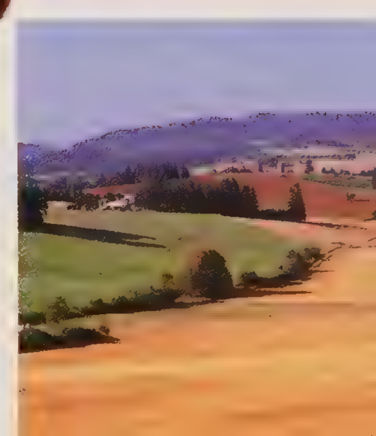
AgriStart™

This innovative line of loans helps families transfer farming operations from one generation to another, as well as assists developing farmers in starting or expanding their operations:

- The **Family Farm® Loan** enables the developing farmer to finance the purchase of farm assets or transfer shares in a family farm business;
- The **1-2-3 Grow Loan** offers deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years; and
- The **Payday Loan** is designed for individuals with off-farm employment who are interested in starting or expanding a farm business.

Plant Now – Pay Later

Customized to suit varying developmental phases, Plant Now – Pay Later loans meet the needs of our vibrant fruit-growing industry, including soft fruits and berries.



Other services

Property management services

FCC's Agri-Land division is responsible for the Corporation's property management services, including:

- **Appraisal services:** Accredited appraisers assist field staff in determining the value of customers' land, as well as produce the semi-annual Farmland Values report, the only source for comprehensive farmland values information across Canada. Upon request, the appraisers provide in-depth analysis of farmland values on a national, provincial or local basis.
- **Environmental assessments:** FCC's lending policies and processes are continually reviewed to ensure that all environmental laws and best practices are adhered to from a creditor's perspective. FCC staff are aware of the impact of environmental issues on the sustainability of an agricultural operation.
- **Land sales and leasing:** Agri-Land is also responsible for the sale and leasing of FCC properties.

FCC-CULEASE leasing program

FCC and CULEASE Financial Services™ are working together to offer capital lease financing on new or used agricultural equipment through FCC's national dealer equipment network. This product is available in Western Canada and Ontario.

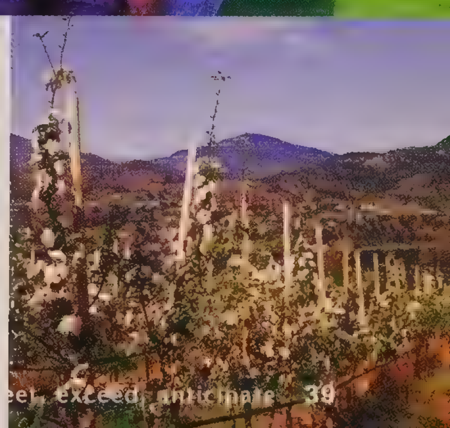
National Dealer Equipment Financing Program

FCC works with a national network of agricultural equipment dealers to provide a competitive alternative for financing new and used agricultural equipment.

Agricultural Value-Added Program

In co-operation with Western Economic Diversification and CIBC, FCC assists western Canadian agribusiness enterprises in accessing debt capital.

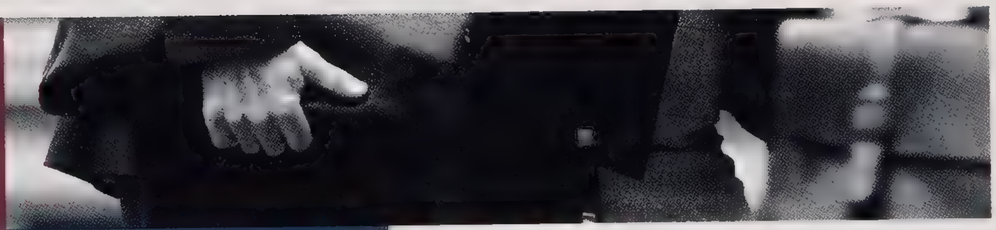
For detailed information on our products, visit FCC's Web site at www.fcc-sca.ca or call our Customer Service Centre at 1-877-332-3301.



FCC MEDIUM-TERM

Notes

Strengthening your portfolio by contributing to agriculture



Canadian investors can safely lend their support to producers and agribusinesses through FCC's medium-term notes (MTNs). These notes offer competitive interest rates and a range of maturities to suit investors' needs.

The Corporation's MTNs are direct obligations of the Government of Canada and have the same security of principal and interest as federal government bonds. Medium-term notes can be held in investment portfolios and also inside registered plans such as retirement savings plans, retirement income funds or education savings plans.

MTNs can be purchased daily through a network of dealers for a minimum investment amount of $5,000 and then in multiples of $1,000. They are available in terms ranging from one to 10 years with semi-annual or monthly interest payments. Zero coupon bonds are also available at a discount with interest payable at maturity. By choosing different terms and interest payment options, investors can use FCC's medium-term notes to create a steady stream of interest income.

MTN investors help sustain the growth of Canadian agriculture while benefiting from an investment that features competitive yields, flexibility and capital safety.

For more detailed information on our medium-term notes, visit FCC's Web site at www.fcc-sca.ca or call our Customer Service Centre at 1-877-332-3301.

MAKING it EASY for

Customers

Customers' time is precious. They want fast, easy access to information and expertise that add value to their operations. Quality service and rapid transaction processing is part of this equation. That's why we continuously seek improvements in our processes, service delivery channels and quality of information.

Streamlining operations

Whether inquiring about account balances or applying for a new loan, our customers want answers quickly. This year, FCC's Business Process Re-engineering (BPR) team worked with field and service centre staff to implement new processes to allow the Corporation to serve customers better. As a result, field staff have access to new electronic tools and improved approval processes that decrease the turnaround time on loan requests.

In 2000-01, BPR and Human Resources (HR) reorganized HR service delivery to allow employees easier access to benefit and compensation information and services as well as to improve support to managers. The recommended structure is currently being implemented and efficiency gains should be evident by the end of the next fiscal year.

These service delivery improvements will help all employees focus on what's most important at FCC – the customer.

Improving access to products and services

For FCC, e-business is all about making it easier for agricultural operators in rural Canada to access FCC information and services. The strategy developed this year will take our Internet presence as an information resource to the next level by offering the ability to transact online. We will integrate our Internet services with face-to-face customer contact through our field offices and telephone service via the Customer Service Centre.

In March 2001, FCC redesigned the look and navigation of the FCC site to make it easier to access. We also began building the internal infrastructure to take our services online.

E-business is one way to enhance rural Canada by making our services accessible beyond the reach of our current office locations. This will support the federal government's commitment to spend $1 billion on high-speed Internet access into rural Canada by 2004.

Managing knowledge for greater strength

Producers and agribusiness operators depend on FCC's agricultural financing expertise to help them create financial solutions for long-term success. The Corporation is developing a knowledge management strategy to capture the expertise of FCC staff and share it within the Corporation and ultimately with our customers.

This year, FCC developed and launched its own corporate intranet to provide a central source of information for employees. The key objective of the first phase is to provide easier access to current corporate and industry information that employees need regularly.

The intranet will be an important tool in knowledge management. Employees will be able to access and build on available corporate information, turning it into knowledge. Online forums will allow staff to share their expertise with their colleagues. Communities of internal experts will be able to work together in the analysis of existing information, adding value that will result in improved understanding of customer needs.

In the future, the Internet will play a key role in delivering information and knowledge customized by sector and region.

Management DISCUSSION

and Analysis

Overview 2000-01

HIGHLIGHTS

- Improved financial stability – solid ratios and financial indicators
- Strong portfolio growth to $6.9 billion
- Diversification of portfolio by enterprise and geographic area
- Return of property to primary producers – property balances down 61 per cent from 1999-2000, based on total value held
- Improved operational efficiency

Key financial results

$ millions	2001	2000
Loans receivable	**6,907.6**	6,303.8
Portfolio growth rate	**9.6 %**	7.9 %
Loan approvals	**1,752.5**	1,611.6
Loan renewal rate	**94 %**	94 %
Arrears	**35.7**	35.1
Net interest income	**164.5**	154.4
Net interest margin	**2.41 %**	2.37 %
Administration expenses	**94.5**	90.8
Efficiency ratio	**55.0 %**	56.8 %
Income before income taxes	**61.2**	40.3
Return on equity*	**8.4 %**	6.6 %
Return on assets*	**0.89 %**	0.63 %
Debt-to-equity	**7.6:1**	9.5:1

** Before income taxes*

- Loan portfolio is 9.6 per cent larger than in 1999-2000 and five per cent higher than planned.
- Loan approvals 8.7 per cent higher than in 1999-2000 (an additional $1.8 billion invested in agriculture).
- Net interest income 6.5 per cent higher than in 1999-2000.
- Overall net interest margin up four basis points from 1999-2000.
- Improved efficiency ratio reflecting the realization of process efficiency gains and cost containment.
- Increased income before income taxes due to the larger loan portfolio and higher net interest margin. All other revenues and expenses consistent with the prior year.
- Lower debt-to-equity ratio, indicating a stronger equity base which will better enable FCC to reinvest in agriculture and grow the balance sheet.

OUTLOOK 2001-02

- Steady growth of a strong, diversified portfolio
- Continued return of land holdings to primary producers
- Financial stability to support future portfolio growth
- Consistently high service levels through product and service delivery and quality improvement

Balance sheet

HIGHLIGHTS – BALANCE SHEET

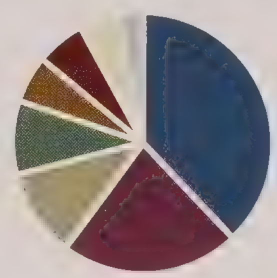
- Loan portfolio up 9.6 per cent to $6,908 million
- Loan approvals up 8.7 per cent to $1,753 million
- Impaired loans down $23 million to $145 million
- Allowance for credit losses up $19 million to $269 million
- Short- and long-term cumulative borrowings of $6.2 billion and $579 million respectively.

Lending activity

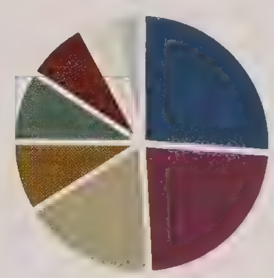
The loan portfolio grew 9.6 per cent to $6.9 billion in 2000-01, up from $6.3 billion in 1999-2000. Increased loan disbursements and renewals accounted for much of the portfolio growth, an indication of FCC's ability to retain and grow its customer base. New loan disbursements increased to $1.78 billion in 2000-01 from $1.58 billion in 1999-2000, a 12 per cent increase.

The lending focus continues to be on primary production, with the majority of loan approvals in 2000-01 going to primary producers. The overall lending mix shows increased diversification of the loan portfolio. The current year saw a shift in FCC's portfolio towards beef, hog, poultry and value-added operations, which is consistent with the overall growth in these industries during the year.

Portfolio by enterprise



2000-01 Approvals by enterprise



Special Traditional: includes bee-keeping, fur-bearing animals, Pregnant Mare Urine (P.M.U.), horses, vermiculture and aquaculture

Other: includes sheep, maple syrup, mixed enterprises and other income sources

Primary production

Primary production is defined as farming that produces raw commodities, e.g. cash crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock.

In 2000-01, loan approval dollars to primary producers remained consistent with 1999-2000 levels at $1.3 billion. The number of loans approved decreased, to 10,078 from 10,747. Lending to primary producers represents 86 per cent of the total loan approvals for the current year. This includes all lending through alliance partnerships as it is all to primary producers.

Cash crops and dairy represented 61 per cent of primary production loan approvals in 2000-01 compared to 65 per cent in 1999-2000. This difference was primarily due to an increase in lending to beef and poultry operations, reflecting the growth in these two industries. New products designed to meet specific customer needs have contributed to the diversification of the portfolio.

At the regional level, primary production portfolios grew by an average of 8.0 per cent over the year, with the largest growth (12.3 per cent) in Ontario due to increased beef and poultry lending in the region. All other regions had growth rates near the average rate, with the Prairies seeing the slowest growth, due to nominal growth in lending to cash crop operations.

Agribusiness

Agribusiness includes businesses that produce, transport, store, distribute, process or add value upstream or downstream from primary production.

Loans approved for agribusiness enterprises grew in 2000-01 to $251 million from $146 million in 1999-2000. The portfolio increased by $154 million in the year as FCC served more producers diversifying into value-added production. By lending to agribusiness, FCC helps producers add more value to their commodities as well as create markets closer to home.

Quebec and Western regions led the growth in agribusiness lending, with 36.5 per cent and 31.0 per cent respectively. Significant increases in lending to value-added processing in the Quebec region and to poultry processors in the Western region drove this growth. The remaining growth was generated by increased lending to value added and crop processing in the Ontario region. Although agribusiness lending saw strong growth, the total volume still represents a small portion of the total portfolio.

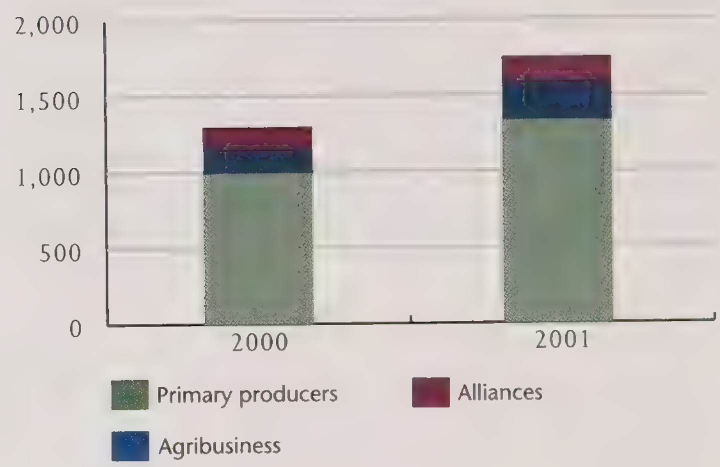
Alliances

Alliances are relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services to primary producers.

FCC's present alliance portfolio includes 27 alliance contracts and several strategic partnerships with organizations such as Agriculture Financial Services Corporation in Alberta and the Business Development Bank of Canada. FCC creates these alliances and partnerships in order to provide leadership in the industry and to ensure that the Corporation has the resources and expertise available to respond to all producers' needs. For example, our alliance with CULEASE Financial Services provides FCC with the ability to offer leasing products to customers.

During the year, FCC continued to grow its alliance portfolio, which reached $215 million in the current year from $187 million in 1999-2000. This growth represents 5.1 per cent of the increase in the entire loan portfolio. At present, the alliance portfolio primarily serves the beef industry, with several beef alliances in the Prairie and Western regions making up 79 per cent of the total portfolio.

Approvals by line of business ($ millions)

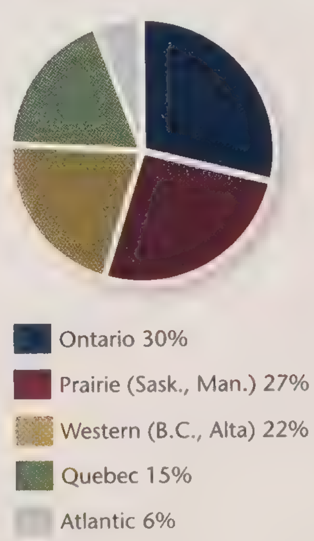


Total lending by geographic area

All areas of the country experienced an increase in dollar value of loans approved over the prior year. Ontario and Quebec experienced the largest increases, accounting for 45 per cent of all loan approvals in 2000-01, compared to 42 per cent in 1999-2000.

Overall portfolio growth of 9.6 per cent in 2000-01 is due primarily to significant increases in Ontario (13 per cent) and Quebec (12 per cent), a reflection of growth in the beef, poultry and value-added industries in these regions. The Prairie region experienced nominal growth in lending to cash crop operations.

Loan approvals by region



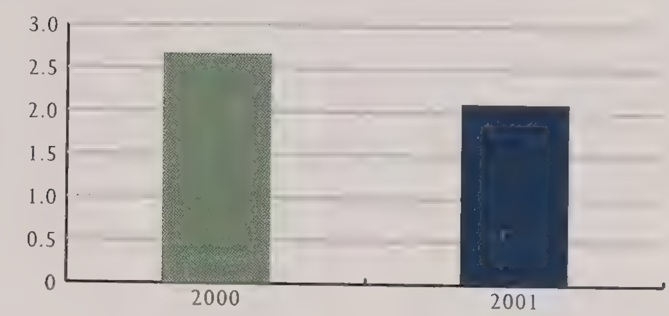
Strong credit quality

Impaired loans

Loans are classified as impaired when, based on management's judgement, there is no longer reasonable assurance of the timely collection of principal and interest.

In 2000-01, impaired loan balances decreased as a percentage of loans receivable to 2.11 per cent from 2.67 per cent and in overall value to $145 million from $168 million. This is a reflection of FCC's sound risk management policies and practices and the constant involvement of our employees in understanding and helping our customers. FCC continually monitors loans in arrears to identify potential impaired loans. The Corporation is proactive in helping customers through difficult times.

Impaired loans as percentage of loans receivable



Allowance for credit losses

Allowance for credit losses is management's best estimate of credit losses in the loans receivable portfolio (described further in note 2(c) to the financial statements).

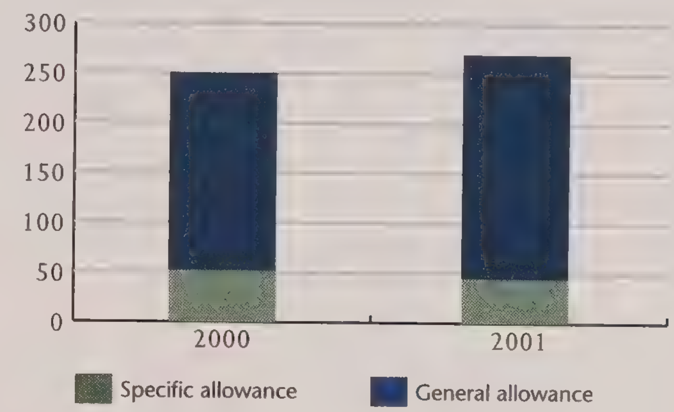
The allowance for credit losses has three components:

Specific – provides for probable losses on specific loans which have become impaired.

General allocated – management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. The allocated amount considers the Corporation's Risk Scoring and Pricing System (RSPS) to identify loans which have shown some deterioration in credit quality.

General unallocated – the unallocated portion considers recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio which have not yet manifested themselves in specific loans.

Allowance balance ($ millions)



The allowance for credit losses increased by 7.8 per cent to $269.2 million from $249.7 million in 1999-2000. This increase is caused by the growth in the portfolio size of 9.6 per cent offset slightly by a healthier portfolio. This is reflected in the drop in the allowance as percentage of loans receivable to 3.90 per cent in 2000-01 from 3.96 per cent in 1999-2000. The increase in the allowance reflects the higher risks associated with a larger portfolio.

In order to limit credit losses and continue to meet the future needs of the agricultural industry, FCC will continue to emphasize good credit quality and build on sound lending risk management policies and practices.

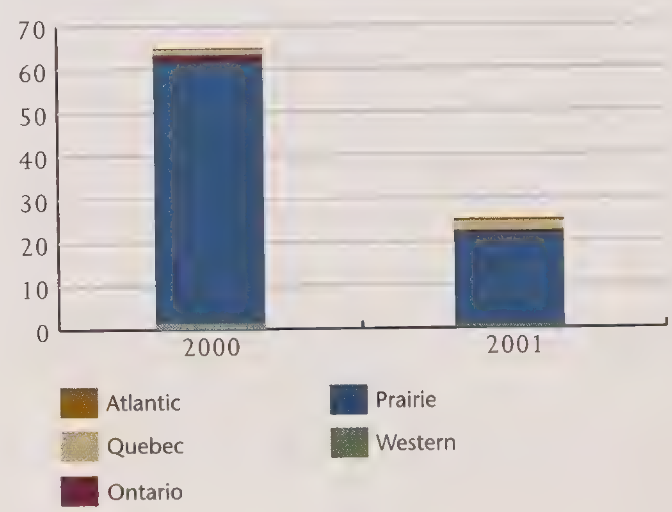
Real estate acquired in the settlement of loans

Real estate holdings by FCC represent land acquired in settlement of loans payable.

The downward trend in FCC's real estate balances is a reflection of our commitment to returning farmland to primary producers. The real estate balance at March 31, 2001, was $25.1 million (120,924 acres), down from $64.9 million (360,284 acres) last year and lower than the target level for 2000-01.

The Corporation transferred 249,116 acres of land valued at $71.2 million to farmers this year compared to 248,772 acres, totaling $64.8 million, last year. Of the transfers completed this year, 64 per cent involved the return of farmland to former owners. As long-term leases mature, more farmland will be returned to producers in 2001-02.

Real estate by region ($ millions)



Funding activity

FCC raises funds through multiple domestic and international capital market borrowing programs. Short-, medium- and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium- and Long-Term Note (MTN) Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note (EMTN) Program.

Short-term funding

Short-term funding consists of borrowings with a duration of under one year. This includes the Domestic and Euro Commercial Paper programs, as well as MTN and EMTN debt with less than one year to maturity.

The outstanding short-term borrowings at March 31, 2001, were $1.9 billion, compared to $1.0 billion as at March 31, 2000. This increase is the result of an increase in variable-rate lending, which is funded by short-term debt.

Medium- and long-term funding

Medium- to long-term funding consists of all borrowings with a duration of over one year. This includes all MTN and EMTN debt with over one year to maturity.

During 2000-01, FCC borrowed a total of $579 million in medium- and long-term funds, down from $1.1 billion in 1999-2000. The decrease is due to lower levels of debt maturing in the year. In 2000-01, $551 million of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes. FCC also issued $28 million in the EMTN market, down from $100 million in 1999-2000. Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. As a sovereign borrower, FCC's credit ratings are as follows:

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P1	Aa1	P-1
Standard & Poor's	AAA	A-1+	AA+	A-1+

FCC intends to pursue opportunities to diversify funding sources and access cost-effective capital market funds. Such initiatives would be established pursuant to and in accordance with the Minister of Finance's *Guidelines for Market Borrowings by Crown Corporations*.

OUTLOOK 2001-02 – Balance sheet

- Sustained portfolio growth with continued emphasis on primary producers
- Expansion of portfolio depth and breadth through enhanced partnerships and delivery channels
- Increased allowance for credit losses to reflect risks associated with a larger portfolio and the uncertainty in general economic conditions
- Continued return of real estate to primary producers
- Financial strength as a result of solid margins and a larger portfolio
- Funding sourced via the domestic and international capital markets

Income statement

HIGHLIGHTS – INCOME STATEMENT
- Net interest income up 6.5 per cent to $164.5 million.
- Net interest income margin up four basis points to 2.41 per cent.
- Administration expense efficiency ratio improved to 55.0 per cent.
- Other income up 28 per cent to $8.2 million.

Net interest income and margin

Net interest income (NII) is the difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

NII increased 6.5 per cent to $164.5 million from $154.4 million last year. The major factors contributing to this year-over-year variance are:

- a larger portfolio – the loans receivable portfolio for 2000-01 is up by $603.8 million over 1999-2000, which contributed $21.4 million more in income; and
- a decrease in rates – lower rate levels offset the volume gain by approximately $11.3 million.

The net interest income margin is the net interest income expressed as a percentage of the average total assets. It is intended to cover credit risks and administration expenses as well as yield sufficient profit to enable the Corporation to remain financially viable and to sustain support for agriculture.

Net interest income and margin

$ millions	2001	2000
Interest income		
Loans receivable	$ 524.6	$ 470.2
Investments	24.0	25.3
	548.6	495.5
Interest expense		
Short-term debt	83.6	58.4
Long-term debt	300.5	282.7
	384.1	341.1
Net interest income	$ 164.5	$ 154.4
Average total assets	$ 6,815.6	$ 6,513.5
Net interest margin	2.41 %	2.37 %
Year-over-year change in net interest income due to:		
Increase in volume	$ 21.4	$ 14.2
Decrease in rates	(11.3)	(6.1)
	$ 10.1	$ 8.1

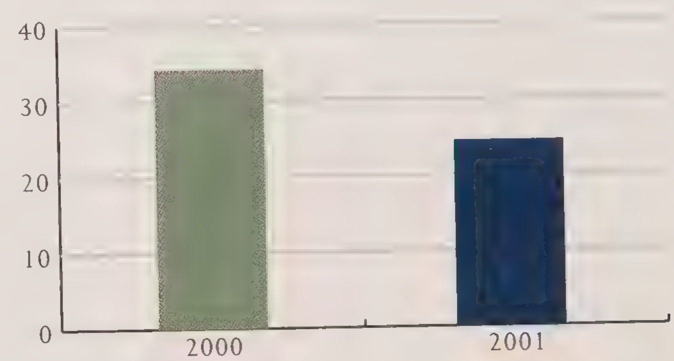
Provision for credit losses

The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

The provision for credit losses decreased to $40.2 million from $52.7 million in 1999-2000 as a result of lower impaired loan balances and improved overall portfolio health.

The provision will remain at higher levels in future years due to the risks associated with a larger portfolio and the uncertainty in general economic conditions.

Provision as a percentage of NII (%)



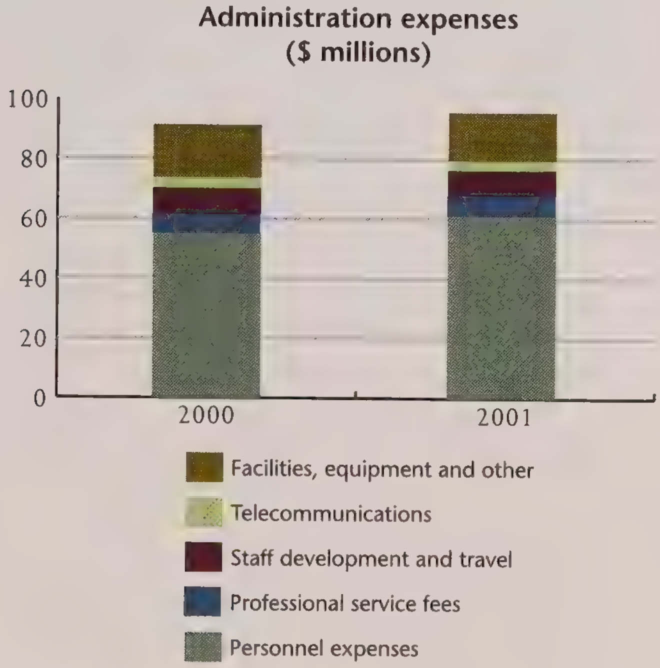
Administration expenses and efficiency

Despite portfolio growth which resulted in a 11.6 per cent increase in interest revenue, administration expenses increased by only 4.1 per cent. This improved the efficiency ratio, a measure of how well resources are used to generate income, to 55 per cent in 2000-01 from 57 per cent in the prior year.

The improvement in the efficiency ratio reflects the realization of efforts in prior years that were aimed at achieving process efficiencies and cost containment. A steady focus on process redesign and improvement led to better allocation of resources to support the growth of lending, enhanced product support and market development and a stronger infrastructure which maximizes customer support.

At the same time, service levels remain high and FCC is committed to making it easy for customers to do business with us through:

- continuously improving product and service delivery;
- initiating an e-business project for improved service to customers; and
- maintaining a focus on continuous quality improvement.



Income taxes

Effective April 1, 2000, the Corporation retroactively adopted the accounting recommendations in Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3465, Income Taxes. Under Section 3465, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective value for income tax purposes. The Corporation's temporary differences, which are deductible, combined with the Corporation's income tax loss carry-forwards, represent a future income tax asset. Changes to the value of the future income tax asset are charged against income as future income tax expense.

Management of the Corporation is of the opinion that there is a less than likely probability of fully realizing the future income tax asset. However, after extensive consultation with the Office of the Auditor General and in order to accommodate the technical interpretation of Section 3465, the future tax asset has been recorded on the Balance Sheet.

Net income

Net income for the year is $31.6 million. This is not comparable to prior year net income of $38.4 million due to adoption of CICA Handbook section 3465 in 2000-01. Income before income taxes increased to $61.2 million compared to $40.3 million in the previous year. This increase was the result of higher net interest income driven by a larger and better performing portfolio. Projected portfolio growth and controlled administration expenses will continue to increase net income. This allows FCC to play an increasingly significant role in the support of growth in the agricultural industry. All income earned is reinvested into agriculture by financing portfolio growth and new product development.

OUTLOOK 2001-02 – Income statement

- Continued growth in net interest income driven by higher loan volumes and a modest rise in margins
- Expected increase in net income as net interest income outpaces administration expenses
- Efficiency ratio to improve due to process efficiency gains
- Increased provision for credit losses in response to portfolio growth and continued economic volatility

Managing risk

HIGHLIGHTS – RISK
- Implemented a new internal risk-rating system.
- Completed the first full year of the new field audit program.
- Met all risk measurement targets throughout the year.

Overview

Risk management is key to protecting FCC's customers, business interests and future viability. FCC is exposed to many different risks in its dual role as a self-financing financial institution and a vehicle for public policy.

The first concern of the Board of Directors and senior management is strategic risk. Failure to properly execute strategy to meet the needs of the marketplace or FCC stakeholders can dramatically impact the Corporation's business. Without an appropriate overall business strategy, the Corporation's other efforts at risk mitigation could be compromised as well.

FCC considers that it faces four specific types of business risks: credit risk, market risk, operational risk and liquidity risk.

Credit risk: The risk of loss due to the failure of a counterparty to meet its financial obligations. This risk includes:
- risk of borrower defaults and associated losses;
- risk of failure of other counterparties to honor contract arrangements.

Credit risk is inherent both in FCC's lending portfolio and its funding programs.

Market risk: The potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rate variability.

Operational risk: All risks inherent in the operational activities of the Corporation:
- control and compliance;
- policies, procedures and processes;
- fraudulent or unauthorized activities;
- information technology; and
- e-business.

Liquidity risk: Liquidity is the availability of funds or assurance that funds will be available to honour all commitments. Commitments are generally met by operating cash flows, supplemented by assets readily convertible to cash or through FCC's capacity to borrow. Liquidity risk may increase if principal and interest cash flows related to assets, liabilities and off-balance sheet items are mismatched.

Responsibility for risk management

No one division or unit is responsible for managing all the risks FCC faces. Instead, divisions and teams with specialized expertise address specific risk concerns.
- The Risk Management division manages credit risk in the loan portfolio and is responsible for credit authorization, customer and loan monitoring, participation in field office credit audits, and the development and administration of lending and loan administration policies. The division assesses credit risk at both the transactional level and the aggregate level.
- The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk and credit risk related to derivative instruments. The Asset/Liability Committee (ALCO) oversees Treasury's management of credit, liquidity and market risks at the executive level and reports to the Board of the Corporation on a quarterly basis.
- Corporate Audit is responsible for ensuring compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. In 1999-2000, special emphasis was placed on the management of credit risk through the field audit program.

Integrated risk management

In 1999-2000, FCC began developing an integrated approach to risk management in order to better identify, evaluate and manage the variety of risks it faces. This approach is not designed to replace current risk management functions or structures, but to better coordinate risk mitigation efforts and enhance the risk culture of the organization. The initial project phase of the framework identified and addressed five major short-term and long-term risks FCC currently faces. The project phase ended March 31, 2001, with the presentation of an analysis of the five major risks and related recommendations. The development and implementation of the integrated risk management framework was supported by recommendations in the Office of the Auditor General's (OAG's) 1997 Special Examination.

Integrated risk management framework...

Defines the mechanisms needed to continually identify, measure, mitigate, monitor and communicate all forms of risk facing FCC.

Five major risks were identified, based on probability and severity, and analyzed during the project phase:

- agribusiness;
- loan portfolio management;
- information technology;
- customer retention and attraction; and
- strategic positioning.

Credit risk

In 2000-01, several initiatives were undertaken to support credit risk management at FCC, including the development of a portfolio vision and a portfolio diversification strategy. While FCC's portfolio is concentrated in agriculture, diversification across several agricultural sectors, lines of business and geographic areas reduces credit risk. The portfolio vision also includes goals for the performance and structure of the loan portfolio.

A revised lending operations policy was put in place during the fiscal year. As well, most employees directly involved in lending activities have completed additional credit training. Credit risk management for our agribusiness lending has improved, in part, through implementation of recommendations made during the integrated risk management project, as well as through the experience gained as the agribusiness portfolio grows.

In 2000-01, Portfolio Management introduced a new internal risk-rating system, the Risk Scoring and Pricing System (RSPS). This tool helps FCC employees evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio. The RSPS is continually updated with the information necessary to rate the different risks associated with individual loans, customers' payment behaviour and the agricultural sector in which the customer operates. The RSPS also allows better separation of risk categories than past measurement tools, reflecting more accurately the numerous levels of potential risk. The new system was developed using historical FCC data on loan portfolio performance to ensure that the data reflected the specific tendencies in agricultural lending. The data will be tested and refined on a constant basis to ensure its relevance in today's changing environment.

Risk Scoring and Pricing System – a more comprehensive measurement of credit risk

- Regular, automatic updates ensure information used for risk scoring and pricing is current and relevant.
- Data facilitates calculation of allowance and provision for credit losses.
- System provides the information necessary to develop future portfolio concentration management strategies and portfolio vision.
- The ability to map credit risk to any desired level of aggregation improves portfolio analysis capabilities.

The RSPS feeds information on risk at the individual loan level into a Strategic Credit Risk Model that measures overall credit risk present in the portfolio. The model reflects the impact of corporate priorities, credit culture, risk strategy and risk controls to maximize financial performance while maintaining credit performance within an acceptable range of volatility. This overall risk is calculated based on three broad categories whose risk is scored as low, moderate or high:

- transaction risk: the risk presented by individual loans and the customers who support these loans.
- intrinsic risk: the risk presented by the industries, lines of business or enterprises from which the income supporting loan repayment is drawn.
- concentration risk: the risk of various types of concentrations in the overall portfolio.

The model weighs the three different risks and their severity to provide a score which indicates overall strategic credit risk as conservative, managed or aggressive. FCC's goal is to maintain a managed credit risk strategy, which translates to a moderate level of volatility in overall credit risk and financial performance.

Strategic Credit Risk Model – March 31, 2001, results

- In all three risk categories – transaction, intrinsic and concentration – risk was determined to be moderate, resulting in a managed level of overall strategic credit risk.
- These results show steady improvement in overall credit risk exposure over the past five years, indicating that credit risk has been managed successfully. Comparisons made to results from mid-1980's data indicate significant progress in reducing overall levels of credit risk.

Last year also was the first full year of a new field audit program, aimed in part at ensuring compliance with credit policy and procedures. This process also provides the added value of on-site feedback and training on credit-related issues.

It is a tribute to our customers and to our front-line staff that the numerous difficulties in the agricultural economy did not significantly erode portfolio performance. This is a result of the proactive manner in which FCC works with customers facing uncertain cash flow.

Market risk

Treasury manages exposure to market risk within limits developed in consultation with the federal Department of Finance and approved by the Corporation's Board of Directors. Market risk management policies are approved and regularly reviewed by FCC's Asset/Liability Committee (ALCO) and the Board. The Treasury division is responsible for implementing market risk management directives and reports monthly to ALCO and quarterly to the Board of Directors on its activities and asset/liability positions.

The Treasury division manages operations using sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division mitigates market risk by managing interest rate risk. FCC is not exposed to foreign exchange rate risk since all foreign currency borrowings are fully hedged at the time of issuance.

Interest rate risk

FCC is exposed to interest rate risk (IRR) as a result of a mismatch or gap between assets, liabilities and off-balance sheet instruments because of different renewal and/or re-pricing dates. IRR is the potential impact of changes in interest rates on FCC's earnings and economic value. Exposure to IRR is monitored and managed using an asset/liability model so as to avoid material adverse impacts.

Asset/liability management

FCC manages IRR exposures with an asset/liability model. The model simulates changes in net interest income (NII) and market value portfolio equity (MVPE) for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2001, an immediate two per cent increase (decrease) in interest rates across all maturities would affect NII and MVPE as follows:

	2% increase	2% decrease
	$ millions	
NII variability	$9.1	($9.6)
Economic value variability (MVPE)	($44.5)	$49.9

FCC is currently within Board-approved risk management guidelines and policies with respect to exposures to interest rates and foreign exchange risks.

The Treasury division uses derivative financial instruments, primarily swaps and options, to manage interest rate and foreign exchange risk arising from funding activities. The division manages credit risk associated with derivative financial instruments using the dollars-at-risk methodology. Derivative counterparty positions and credit risk exposures are monitored, managed and regularly reported to ALCO, FCC's Board of Directors and the Department of Finance.

Liquidity risk

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The Corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- a liquid investment portfolio: Cash and marketable securities equal to $302.3 million were on hand at March 31, 2001 (March 31, 2000 – $364.3 million). ALCO and the Board of Directors have established an investment/liquidity policy that sets minimum credit ratings for short- and long-term marketable securities as well as limits the size and composition of the total investment portfolio.
- access to commercial paper markets: FCC's domestic and European commercial paper programs provide the Corporation with sufficient liquidity to meet daily cash requirements.

OUTLOOK 2001-02 – Risk

- Continue to develop the Integrated Risk Management framework
- Continue to develop and refine the internal risk-rating system

FCC SCA
Farm Credit Corporation Société du crédit agricole
Canada

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, a committee which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The Corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing her report thereon.

John J. Ryan Moyez Somani

John J. Ryan
President and
Chief Executive Officer

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 11, 2001

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Corporation as at March 31, 2001, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the methods of accounting for employee future benefits and income taxes as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Corporation Act* and the by-laws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Interim Auditor General of Canada

Ottawa, Canada
May 11, 2001

Balance Sheet

AS AT MARCH 31

(thousands of dollars)

	2001	2000
ASSETS		
Cash and short-term investments (Note 4)	$ 302,261	$ 308,768
Accounts receivable and other accrued assets	47,728	74,874
Long-term investments (Note 5)	–	55,557
Loans receivable (Notes 6 and 7)	6,638,344	6,054,099
Real estate acquired in settlement of loans (Note 8)	25,118	64,855
Equipment and leasehold improvements (Note 9)	15,521	12,554
Other assets (Notes 12 and 14)	152,866	–
	$ 7,181,838	$ 6,570,707
LIABILITIES		
Accounts payable and accrued liabilities	$ 40,072	$ 23,349
Accrued interest on borrowings	131,831	165,966
	171,903	189,315
Borrowings (Note 10)		
Short-term debt	1,893,450	1,040,139
Long-term debt	4,263,028	4,700,734
	6,156,478	5,740,873
Other liabilities and deferred fees (Note 11)	20,880	13,302
	6,349,261	5,943,490
EQUITY		
Capital (Note 1)	507,725	507,725
Retained earnings	324,852	119,492
	832,577	627,217
	$ 7,181,838	$ 6,570,707

Commitments and contigent liabilities (Note 13)

The accompanying notes are an integral part of the financial statements.

Approved:

Rosemary Davis

Rosemary Davis
Chair, Board of Directors

Marie-Andrée Mallette
Chair, Audit Committee

Statement of Operations and Retained Earnings

FOR THE YEARS ENDED MARCH 31
(thousands of dollars)

	2001	2000
INTEREST INCOME		
Loans receivable	$ 524,562	$ 470,152
Investment income	23,984	25,337
	548,546	495,489
Interest expense		
Short-term debt	83,564	58,419
Long-term debt	300,482	282,653
Net interest income	164,500	154,417
Provision for credit losses (Note 7)	40,200	52,743
Net interest income after provision for credit losses	124,300	101,674
LEASE AND REAL ESTATE INCOME		
Lease and other revenue	26,335	29,785
Operating expenses	1,065	1,994
Interest expense	2,048	4,804
Net lease and real estate income	23,222	22,987
OTHER INCOME	8,226	6,415
INCOME BEFORE ADMINISTRATION EXPENSES	155,748	131,076
Administration expenses	94,509	90,779
INCOME BEFORE INCOME TAXES	61,239	40,297
Current income taxes (Note 12)	2,206	1,926
Future income taxes (Note 12)	27,436	–
Income taxes	29,642	1,926
NET INCOME	31,597	38,371
Retained earnings, beginning of year, as restated (Note 3)	293,255	84,121
Dividend	–	(3,000)
RETAINED EARNINGS, END OF YEAR	$ 324,852	$ 119,492

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

FOR THE YEARS ENDED MARCH 31
(thousands of dollars)

	2001	2000
OPERATING ACTIVITIES		
Net income	**$ 31,597**	$ 38,371
Items not involving cash		
Future income taxes	**27,436**	–
Provision for credit losses	**40,200**	52,743
Amortization of bond premiums/discounts	**36,236**	21,117
Change in accrued interest receivable	**32,802**	(30,864)
Change in accrued interest payable	**(46,438)**	45,110
Other	**15,888**	(5,730)
Cash provided by operating activities	**137,721**	120,747
INVESTING ACTIVITIES		
Long-term investments	**53,404**	45,734
Loans receivable disbursed	**(1,776,200)**	(1,579,700)
Loans receivable repaid	**1,159,157**	1,095,652
Change in real estate held (Note 8)	**39,737**	38,540
Other	**(9,899)**	(16,032)
Cash used in investing activities	**(533,801)**	(415,806)
FINANCING ACTIVITIES		
Long-term debt repaid to Canada	**(226,113)**	(236,194)
Long-term debt from capital markets	**567,154**	1,109,989
Long-term debt repaid to capital markets	**(814,983)**	(431,349)
Change in short-term debt	**863,515**	(81,416)
Dividend paid	**–**	(3,000)
Cash provided by financing activities	**389,573**	358,030
(Decrease)/increase in cash and short-term investments	**(6,507)**	62,971
Cash and short-term investments, beginning of year	**308,768**	245,797
Cash and short-term investments, end of year	**$ 302,261**	$ 308,768

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation (the Corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown Corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues the Farm Credit Corporation with its Corporate Office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role is to enhance rural Canada by providing specialized and personalized financial services to family farms and those businesses in rural Canada that are related to farming. Additionally, the Corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

(b) Capital

Capital of the Corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998, reallocation of $660.6 million to eliminate the Corporation's accumulated deficit.

As of March 31, 2001, capital payments received from the Government of Canada amounted to $1,168.3 million (2000 – $1,168.3 million). The statutory limit for that same period was $1,175.0 million (2000 – $1,175.0 million).

(c) Limits on borrowing

The *Farm Credit Corporation Act* restricts the total direct and contingent liabilities of the Corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2001, the Corporation's total liabilities were 7.6 times the equity of $832.6 million (2000 – 9.5 times the equity of $627.2 million).

2. Significant accounting policies

(a) Investments

Investments comprise the Balance Sheet categories of short-term investments and long-term investments. Interest income, amortization of premiums and discounts and write-downs to market value on investments are reported as investment income. Except as noted below for long-term investments acquired to manage funding opportunities in advance of cash requirements, gains and losses on disposal of investments are also reported in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

Long-term investments are securities with terms to original maturity in excess of one year. These investments are acquired primarily for the purposes of asset/liability management and for the management of funding opportunities in advance of cash requirements.

Long-term investments which were acquired for asset/liability management are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. Gains and losses on the disposal of these investments are included in income as a component of investment income.

Long-term investments which were acquired for the management of funding opportunities in advance of cash requirements act as hedges against changes in future borrowing rates. These investments are carried at cost adjusted for the amortization of premiums or discounts over the term to maturity. When there has been a decline in value that is other than temporary, the carrying value is appropriately reduced. To estimate the true cost of funding, gains and losses on the disposal of these investments are amortized on a straight-line basis and applied to interest expense over the lives of the related funding instruments.

(b) Loans receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans.

(c) Allowance for credit losses

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement.

In determining the allowance for credit losses, management segregates credit losses into three components: specific, general allocated and general unallocated.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the internal criteria that would require a special allowance to be taken. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to estimate probable credit losses on a loan-by-loan basis.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions that have occurred, but have not yet manifested themselves as observable deterioration in credit quality in specific loans.

The allowance is increased by provisions for credit losses and reduced by write-downs on real estate acquisitions and loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

(d) Real estate acquired in settlement of loans

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Recoveries arising from the disposal of real estate are recognized when title to the property passes to the purchaser. These recoveries are included as a component of lease and other revenue.

(e) Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term

(f) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the monthly average exchange rates prevailing throughout the year.

Exchange gains or losses from the translation of foreign denominated debt and interest expenses, are reported net of the exchange gains and losses from the related currency exchange agreements. These amounts are included as a component of interest expense.

(g) Long-term debt

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Interest settlement amounts for debt with bond index-linked or equity index-linked interest are estimated using the related index level as at the balance sheet date and included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest expense.

(h) Derivative financial instruments

In order to manage its exposure to currency and interest rate risks, the Corporation uses various types of derivative financial instruments such as currency, interest rate, bond index-linked and equity index-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated as hedges as well as asset/liability management contracts which alter the Corporation's overall interest rate profile. The Corporation does not use derivative financial instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in income as a component of interest expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with the accrued interest receivable and payable recorded as a component of accounts receivable and other accrued assets and accounts payable and accrued liabilities respectively.

A premium is paid to purchase an option contract. If the option is exercised, the premium is amortized on a straight-line basis over the life of the underlying instrument and reported as an adjustment to interest expense. If not exercised, the premium is recognized at the time the contract expires and reported as an adjustment to interest expense. Gains realized upon exercising an interest rate option are deferred and amortized to interest expense over the life of the hedged position.

(i) Employee future benefits

Pension and post-retirement benefits

As of July 1, 2000, the Corporation began administering its own pension plans for its employees. Previously, employees participated in the *Public Service Superannuation Act* (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the Corporation signed a Pension Transfer Agreement with the Government of Canada which provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elect to transfer their past service, there will be a transfer of assets from the Public Service Superannuation Fund equal to the liabilities held for these members.

Under the plan administered by the Government of Canada, the Corporation's contributions were expensed during the year in which the services were rendered and those contributions represented the total pension obligation of the Corporation.

The Corporation accrues its obligations under employee benefit plans including pension plans and post-retirement plans other than pensions and the related costs, net of plan assets. The Corporation has adopted the following policies:

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs; and
- for the purpose of calculating the expected return on plan assets, those assets are valued at market value.

The Corporation sponsors two defined benefit pension plans and a defined contribution pension plans. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

Actuarial valuations of the pension plans are made periodically for accounting purposes based on the market-related discount rate.

The Corporation provides to eligible retired employees certain health care benefits, life insurance coverage and coverage of provincial health care premiums for Alberta and British Columbia.

Post-employment benefits

The Corporation accrues its obligations for post-employment benefits. The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on services.

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The Corporation also provides health care benefits to employees on long-term disability.

(j) Income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized according to the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(k) Use of estimates

The preparation of the Corporation's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the valuation of real estate acquired in settlement of loans, the provision for employee future benefits and the recognition of the deductible temporary differences and loss carry-forwards for income tax purposes as a future income tax asset. Actual results could differ from those estimates.

3. Changes in accounting policies

(a) Employee future benefits

Effective April 1, 2000, the Corporation retroactively adopted the accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, *Employee Future Benefits*.

In previous years, the Corporation accounted for the costs of post-retirement benefits and all post-employment benefits except termination benefits on a pay-as-you-go basis. Under Section 3461, these costs are required to be accrued over the periods in which the employees render services in return for the benefits. The cumulative effect of this accounting policy change, as of April 1, 2000, is an increase to Accounts receivable of $2.0 million, an increase in Accrued liabilities of $8.4 million in addition to the $3.6 million accrual at the beginning of the year and a decrease to the opening balance of retained earnings for the year ended March 31, 2001 of $6.4 million. The increase to Accounts receivable reflects an amount due from the prior plan administrator, which would fund the obligation incurred in prior years with respect to supplementary death benefits.

The Corporation's new pension plans were implemented on July 1, 2000. The new standard with regards to pensions was adopted prospectively as this was a new accounting policy to the Corporation.

(b) Income taxes

Effective April 1, 2000, the Corporation retroactively adopted the accounting recommendations in CICA Handbook Section 3465, *Income Taxes*. As permitted by this Handbook Section, the comparative statements have not been restated.

Section 3465, *Income Taxes*, requires a change from the deferred method of accounting for income taxes under CICA Handbook Section 3470, *Corporate Income Taxes*, to the asset and liability method of accounting for income taxes. Under Section 3465, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. In this, the first year the Corporation is adopting Section 3465, management has used tax rates that were substantively enacted as at March 31, 2001 to measure the future tax asset as at April 1, 2000. Had the Corporation used the tax rate in effect at April 1, 2000, the tax asset and future tax expense would have both been increased by $24.1 million. Management believes this would have created a distortion of operating results. Further, management believes that the approach adopted results in an appropriate value of the future tax asset at both the beginning and end of the year and an appropriate charge to operations during the year. The cumulative effect of this accounting policy change is an increase in Other assets and Retained earnings as at April 1, 2000 of $180.2 million, a charge to operations of $27.4 million during the year and an increase in Other assets and Retained earnings as at March 31, 2001 of $152.8 million.

Beginning Retained earnings, as of April 1, 2000, was adjusted as follows:

(thousands of dollars)

Retained earnings, beginning of year, as previously reported	$	119,492
Change in accounting policy for employee future benefits		(6,445)
Change in accounting policy for income taxes		180,208
Retained earnings, beginning of year, as restated	$	293,255

4. Cash and short-term investments

(thousands of dollars)

	Effective interest rate (%)		2001		2000
Cash		$	**24,430**	$	19,375
Short-term investments	4.58 – 5.72		**276,463**		287,739
Accrued interest			**1,368**		1,654
		$	**302,261**	$	308,768
Short-term investments consist of instruments with maturities of less than one year, issued by:					
The Government of Canada, its agencies and Crowns		$	**88,665**	$	47,890
Other			**187,798**		239,849
		$	**276,463**	$	287,739

Other investments consist of short-term instruments issued by the governments of the provinces of Canada and short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 2001, the largest total investment in any one institution was $59.7 million (2000 – $43.6 million).

The weighted average term-to-maturity of the short-term investments was 73 days (2000 – 50 days).

5. Long-term investments

(thousands of dollars)

	Effective interest rate (%)		2001		2000
Amounts due within: 1 – 5 years	–	$	–	$	50,000
Unamortized premium and discount			–		4,314
Accrued interest			–		1,243
		$	–	$	55,557

Long-term investments consisted entirely of Government of Canada bonds which were sold during the current year.

6. Loans receivable

(thousands of dollars)

	Stated interest rate (%)	2001	2000
Principal amounts due, secured by:			
– mortgages	5.00 – 14.00	**$ 5,852,024**	$ 5,306,707
– chattels	5.45 – 13.40	**792,222**	721,415
– notes	5.00 – 12.50	**28,654**	25,087
		6,672,900	6,053,209
Accrued interest and fees, net of payments held		**89,250**	82,156
		6,762,150	6,135,365
Recorded investment in impaired loans, secured by:			
– mortgages		**136,275**	156,170
– chattels		**8,614**	11,377
– notes		**555**	902
		145,444	168,449
Total loans receivable		**6,907,594**	6,303,814
Less: Allowance for credit losses (Note 7)		**(269,250)**	(249,715)
		$ 6,638,344	$ 6,054,099
Principal amounts (excluding impaired loans) due:			
within 1 year		**$ 1,499,447**	$ 1,390,237
1 – 5 years		**4,530,250**	4,038,768
over 5 years		**643,203**	624,204
		$ 6,672,900	$ 6,053,209

Management estimates that annually, over the next three years, approximately 6.4% (2000 – approximately 8.0%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2001, $11.4 million (2000 – $2.4 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

7. Allowance for credit losses

(thousands of dollars)

	2001	2000
Balance, beginning of year	**$ 249,715**	$ 214,164
Write-offs, net of recoveries	**(20,665)**	(17,192)
Provision for credit losses	**40,200**	52,743
Balance, end of year	**$ 269,250**	$ 249,715
Specific allowance	**$ 44,671**	$ 52,215
General allocated and unallocated allowance	**224,579**	197,500
Balance, end of year	**$ 269,250**	$ 249,715

As at March 31, 2001, the total recorded investment in loans receivable against which a specific allowance has been identified was $145.4 million (2000 – $168.4 million). The general allowance was established against the remaining $6,762.1 million (2000 – $6,135.4 million) investment in loans receivable.

8. Real estate acquired in settlement of loans

(thousands of dollars)

		2001		2000
Balance, beginning of year	$	**64,855**	$	103,395
Acquisitions		**4,693**		2,253
Disposals		**(44,430)**		(40,793)
Balance, end of year	$	**25,118**	$	64,855
Real estate held for sale	$	**21,099**	$	28,770
Real estate under long-term lease maturing:				
within 1 year		**123**		32,115
from 1 – 2 years		**2,901**		2,863
from 2 – 3 years		**995**		1,107
		4,019		36,085
	$	**25,118**	$	64,855

(thousands of dollars)

		2001		2000
Future expected lease receipts, using current lease rates, due:				
within 1 year	$	**205**	$	1,904
1 – 5 years		**45**		303
	$	**250**	$	2,207

Included in real estate held for sale is property which, as of March 31, 2001, has been sold on a conditional basis. This property has a recorded value of $11.1 million (2000 – $17.0 million).

9. Equipment and leasehold improvements

(thousands of dollars)

		Cost		Accumulated amortization	Net book value 2001		2000	
Office equipment and furniture	$	7,838	$	3,639	**$**	**4,199**	$	3,912
Computer equipment and software		25,488		17,611		**7,877**		5,555
Leasehold improvements		7,211		3,766		**3,445**		3,087
	$	40,537	$	25,016	**$**	**15,521**	$	12,554

Included in Administration expenses was $5.3 million (2000 - $6.4 million) of amortization of equipment and leasehold improvements.

10. Borrowings

The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the Corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

(a) Short-term debt

Short-term debt consists of promissory notes payable within one year totaling $1,893.4 million (2000 – $1,040.1 million). The effective interest rate on these notes ranges from 4.35% to 5.92% (2000 – 4.91% to 5.54%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 13, 2000, the Corporation entered into a line of credit agreement allowing the Corporation to access funds in the amount of $50 million on a revolving basis. Indebtedness under this agreement is unsecured. This credit facility expires December 12, 2001. As at March 31, 2001, there were no draws on this line of credit.

(b) Long-term debt

(thousands of dollars)

	Stated interest rate (%)	2001	2000
Loans from Canada, secured by notes	7.03 – 9.91	**$ 578,491**	$ 804,604
Loans from capital markets, secured by notes payable in:			
Canadian dollars	nil – 9.00	**3,620,046**	3,740,130
Japanese yen (¥2,000.0 million)	2.00 – 2.50	**27,523**	–
Loans from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
the Hong Kong Exchange Index		**4,580**	12,000
the Euro Top 100 Index		**32,388**	56,000
the S&P 500 Composite Stock Price Index		**–**	38,000
the DS Barra Government Bond Index		**–**	50,000
		$ 4,263,028	$ 4,700,734

Loans with index-linked interest payments do not provide periodic interest payments but, upon maturity, provide the purchaser with a single payment based on the change in the underlying equity or bond index. The Corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Loan payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Long-term debt maturities are as follows:
(thousands of dollars)

	2001	2000
Amounts due:		
within 1 year	$ 1,360,788	$ 1,279,186
from 1 – 2 years	1,023,501	1,060,127
from 2 – 3 years	730,300	779,771
from 3 – 4 years	509,048	631,052
from 4 – 5 years	263,770	421,036
over 5 years	375,621	529,562
	$ 4,263,028	$ 4,700,734

Included in long-term debt is $378.6 million (2000 – $391.2 million) of loans extendable beyond their original due dates at the Corporation's option.

11. Other liabilities and deferred fees

(thousands of dollars)

	2001	2000
Other liabilities and deferred fees consist of:		
Accrued benefit liability (Note 14)	$ 12,678	$ 3,600
Net currency swap payable	2,823	165
Downpayments on real estate sales	2,308	4,577
Deferred loan fees	1,922	4,241
Other	1,149	719
	$ 20,880	$ 13,302

12. Income taxes

As at March 31, 2001, deductible temporary differences of approximately $311.9 million (2000 – $239.5 million) are available to the Corporation as deductions against future tax liabilities. They result primarily from differences between the provision for credit losses charged to operations and the amount claimed for tax purposes.

In addition, the loss carry-forwards for income tax purposes, which have been recognized in the financial statements, amount to $138.5 million (2000 – $280.8 million) and expire on the dates indicated:

(thousands of dollars)

March 31, 2003	$ 41,059
March 31, 2005	97,433
	$ 138,492

The net future tax asset is included in Other assets on the Balance Sheet and is comprised of:
(thousands of dollars)

		2001
Components of future income tax balance		
Future income tax assets:		
Allowance for credit losses	$	**82,196**
Post-retirement benefits other than pensions		**4,687**
Equipment and leasehold improvements		**18,647**
Non-capital loss carry-forwards		**46,976**
Other		**267**
Net future income tax asset	$	**152,773**

Current income taxes payable by the Corporation represent capital taxes under Part I.3 of the *Income Tax Act*. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million.

The following is a reconciliation of income taxes expense:
(thousands of dollars)

	2001		2000	
Income taxes at statutory rates	**$ 24,042**	**39.26%**	$ 15,925	39.52%
Retroactive adoption of section 3461	**3,316**		–	
Large corporations tax	**2,206**		1,926	
Non-deductible expenses	**258**		275	
Part VI tax recovery	**–**		(9,523)	
Utilization of timing differences	**–**		(6,677)	
Other	**(180)**		–	
Income taxes expense	**$ 29,642**		$ 1,926	

13. Commitments and contingent liabilities

(a) Long-term commitments for leases

Future minimum payments by fiscal year on operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year, are due as follows:

(thousands of dollars)

within 1 year	$	**5,548**
from 1 – 2 years		**3,531**
from 2 – 3 years		**2,368**
from 3 – 4 years		**1,626**
from 4 – 5 years		**815**
over 5 years		**484**
	$	**14,372**

(b) Other commitments and contingent liabilities

In the normal course of its business, the Corporation enters into various commitments and contracts. As of March 31, 2001, the Corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $16.2 million (2000 – $1.6 million). In the event of a call upon the guarantees disclosed above, the Corporation has recourse against its customers.

As at March 31, 2001, loans to farmers and agribusiness approved but undisbursed amounted to $101.8 million (2000 – $138.1 million). These loans were approved at an average interest rate of 7.74% (2000 – 8.79%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 30, 2001.

14. Employee future benefits

The following table presents information related to the Corporation's defined benefit plans including amounts recorded on the Balance Sheet and the components of net periodic benefit cost. The measurement date for the defined benefit plans is December 31, 2000.

Change in the accrued benefit obligation:
(thousands of dollars)

	Pension benefits 2001	Other benefits 2001
Accrued benefit obligation, beginning of year	$ –	$ 12,045
Current service cost	1,847	470
Interest cost	105	615
Plan participants' contributions	956	–
Benefits paid	(69)	(452)
Actuarial losses	154	278
Accrued benefits obligation, at measurement date	$ 2,993	$ 12,956

Change in plan assets:
(thousands of dollars)

	Pension benefits 2001	Other benefits 2001
Fair value of plan assets, beginning of year	$ –	$ –
Actual return on plan assets	25	–
Employer contributions	1,986	–
Plan participants' contributions	956	–
Benefits paid	(69)	–
Fair value of plan assets, at measurement date	$ 2,898	$ –

Funded status at measurement date:
(thousands of dollars)

	Pension benefits 2001	Other benefits 2001
Deficiency of plan assets at fair value over projected plan benefits	$ (95)	$ (12,956)
Unrecognized net actuarial losses	188	278
Accrued benefit asset (liability)	$ 93	$ (12,678)

The accrued benefit asset for the Corporation's pension plan is included in Other assets on the Balance Sheet. The accrued benefit liability for other benefits is included in Other liabilities and deferred fees on the Balance Sheet.

The Corporation's expense with respect to employee future benefits is:

(thousands of dollars)

	Pension benefits 2001	Other benefits 2001
Current service cost	$ 1,847	$ 470
Interest cost	105	615
Expected return on plan assets	(58)	–
Net benefit plan expense	1,894	1,085
Employer contributions to PSSA plan	2,485	–
Employer contributions to defined contribution plan	1,336	–
Accrued contributions to RCA plan	204	–
Total benefit expense included in the Statement of Operations and Retained Earnings	$ 5,919	$ 1,085

The amount of expense included in the Statement of Operations and Retained Earnings represents nine months to March 31, 2001 for the defined contribution plan and six months for the defined benefit plans to December 31, 2000, the measurement date.

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	Pension benefits 2001	Post-retirement benefits 2001	Post-employment benefits 2001
Discount rate at the beginning of the period	7.50%	7.50%	6.90%
Discount rate at the end of the period	7.25%	7.40%	6.30%
Expected long-term rate of return on plan assets	8.00%	N/A	N/A
Rate of compensation increase	6.60%	4.00%	4.00%

For measurement purposes, a 9.00% increase in the per capita cost of covered hospital and drug costs was assumed. This increase for covered hospital costs was assumed to decrease gradually to nil ten years from the current year and remain at that level thereafter. The rate for drug costs was assumed to decrease gradually to 5.00% in 10 years from the current year and remain at that level thereafter.

15. Derivative financial instruments

The Corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign currency borrowings. Interest rate options are purchased to hedge options embedded in the Corporation's loan products as well as to reduce the risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the Corporation. A positive replacement cost indicates the Corporation's exposure to counterparty credit risk. The Corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality (Aa3 from Moody's or AA- from Standard & Poor's or better). Additionally, International Swaps and Derivatives Association Inc. (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the Corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2001, was $330.5 million (2000 – $425.1 million) and the largest positive replacement cost of contracts with any institution as at March 31, 2001, was $9.8 million (2000 – $15.3 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 2001, were:

(thousands of dollars)

2001 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Positive replacement cost
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 84,000	$ 345,000	$ –	$ 429,000	$ 309
Fixed	Floating	336,623	–	–	336,623	7,487
Fixed	Fixed	20,000	40,000	–	60,000	7,871
Floating	Floating	–	–	857	857	22
Equity index-linked	Floating	4,580	32,388	–	36,968	1,470
Equity index-linked	Fixed	–	–	–	–	–
Bond index-linked	Floating	–	–	–	–	–
Purchased options		–	–	–	–	–
		445,203	417,388	857	863,448	17,159
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	109,747	–	–	109,747	8,275
CDN fixed	USD floating	–	1,875	–	1,875	–
CDN fixed	GBP fixed	–	–	–	–	–
		109,747	1,875	–	111,622	8,275
Total		$ 554,950	$ 419,263	$ 857	$ 975,070	$ 25,434

(thousands of dollars)

2000 – Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Positive replacement cost
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 90,000	$ 209,000	$ 7,900	$ 306,900	$ 321
Fixed	Floating	322,200	176,000	80,000	578,200	3,365
Fixed	Fixed	20,000	40,000	–	60,000	4,829
Floating	Floating	–	–	857	857	20
Equity index-linked	Floating	–	49,000	19,000	68,000	12,358
Equity index-linked	Fixed	38,000	–	–	38,000	–
Bond index-linked	Floating	50,000	–	–	50,000	–
Purchased options		10,000	–	–	10,000	51
		530,200	474,000	107,757	1,111,957	20,944
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	51,000	5,000	–	56,000	–
CDN fixed	USD floating	–	2,250	–	2,250	–
CDN fixed	GBP fixed	29,860	–	–	29,860	36
		80,860	7,250	–	88,110	36
Total		$ 611,060	$ 481,250	$ 107,757	$ 1,200,067	$ 20,980

Included in derivative financial instruments is $378.6 million (2000 – $391.2 million) of interest rate swap and option contracts extendable beyond their original due dates.

16. Interest rate risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate financial instruments and on the fair value of fixed-rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the Corporation's financial instruments by the earlier of their contractual re-pricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

Floating-rate loans receivable are linked to the bank prime rate and re-price with changes in the rate.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

(thousands of dollars)

2001 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
Short-term investments	$ 277,831	–	–	$ 277,831
Average yield	5.06%	–	–	5.06%
Long-term investments	$ –	–	–	$ –
Average yield	–	–	–	–
Loans receivable (1)				
– Fixed-rate	$ 1,219,434	3,178,398	535,538	$ 4,933,370
Average yield	8.01%	8.02%	8.41%	8.06%
– Floating-rate	$ 300,069	1,412,443	116,268	$ 1,828,780
Average yield	7.65%	7.78%	7.83%	7.76%
Short-term debt	$ 1,909,852	–	–	$ 1,909,852
Average yield	5.13%	–	–	5.13%
Long-term debt	$ 1,397,634	2,595,032	385,791	$ 4,378,457
Average yield	5.62%	6.06%	5.65%	5.88%

(thousands of dollars)

2000 – Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
Short-term investments	$ 289,393	–	–	$ 289,393
Average yield	5.27%	–	–	5.27%
Long-term investments	$ –	55,557	–	$ 55,557
Average yield	–	4.79%	–	4.79%
Loans receivable (1)				
– Fixed-rate	$ 1,203,026	3,153,728	536,886	$ 4,893,640
Average yield	8.03%	7.87%	8.45%	7.97%
– Floating-rate	$ 206,080	939,855	95,790	$ 1,241,725
Average yield	7.90%	8.08%	8.12%	8.05%
Short-term debt	$ 1,046,337	–	–	$ 1,046,337
Average yield	5.16%	–	–	5.16%
Long-term debt	$ 1,322,891	2,989,663	547,948	$ 4,860,502
Average yield	5.65%	5.98%	5.74%	5.86%

Note: (1) Loans receivable excludes impaired loans.

17. Fair values

The following table summarizes the estimated fair value of the Corporation's financial instruments.

(thousands of dollars)

As at March 31	2001 Carrying value	2001 Estimated fair value	2000 Carrying value	2000 Estimated fair value
Assets				
Cash and short-term investments	**$ 302,261**	**$ 302,261**	$ 308,768	$ 308,768
Accounts receivable and other accrued assets	**47,728**	**47,728**	74,874	74,874
Long-term investments	**–**	**–**	55,557	53,493
Loans receivable	**6,638,344**	**6,839,570**	6,054,099	6,100,958
Liabilities				
Accounts payable and accrued liabilities	**$ 40,072**	**$ 40,072**	$ 23,349	$ 23,349
Accrued interest on borrowings	**131,831**	**131,831**	165,966	165,966
Short-term debt	**1,893,450**	**1,893,450**	1,040,139	1,040,139
Long-term debt	**4,263,028**	**4,330,599**	4,700,734	4,695,442

As at March 31	2001 Notional amount	2001 Net fair value	2000 Notional amount	2000 Net fair value
Derivatives				
Interest rate contracts	**$ 863,448**	**$ 3,823**	$ 1,111,957	$ 5,236
Foreign currency contracts	**111,622**	**8,198**	88,110	(699)

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and short-term investments, accounts receivable and other accrued assets, accounts payable and accrued liabilities, accrued interest on borrowings and short-term debt.

Fair value for long-term investments is determined by reference to quoted market prices.

Quoted market values are not available for a significant number of the Corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

- The estimated fair value for the performing fixed loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due dates) at year-end market interest rates. The estimated fair value for the performing variable loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.
- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

The method of calculating the estimated fair value for the impaired loans receivable was changed in the current year with the comparative amount restated in order to make it more consistent with the method used by other financial institutions.

18. Segmented information

The Corporation is engaged in two distinct business segments: agricultural lending and real estate management. Both operate exclusively in Canada. Details regarding these segments are readily available in the Corporation's financial statements.

19. Comparative figures

Certain 2000 comparative figures have been reclassified to conform with the presentation adopted in 2001.

Governance

Board stewardship

The Board of Directors is responsible for overseeing FCC's management and business in the best interests of the Corporation and the long-term interests of the Government of Canada. The Board's responsibilities are set down in the *Farm Credit Corporation Act* and the *Financial Administration Act*.

The Board discharges its responsibilities directly and through committees that include Audit, Corporate Governance and Human Resources. As part of its overall stewardship, the Board:

- establishes and approves the strategic direction, corporate plan and budgets in co-operation with senior management;
- ensures that the principal business risks have been identified and that appropriate systems to manage these risks are in place;
- ensures a management succession plan is in place; and
- ensures that information systems and practices meet the Board's needs for confidence in information integrity.

Strategic direction, mandate and public policy objectives

The Board performs a significant role in setting the strategic direction and ensuring that the legislative mandate of the Corporation continues to meet the needs of the agricultural industry. In 2000-01, the Board reviewed the business needs of the Corporation's customers and recommended legislative changes to ensure that the Corporation is well positioned to meet those customer needs.

As part of the strategic planning process, the Board regularly examines FCC's strategic and public policy objectives. The Board also approves FCC's Corporate Plan, Annual Report and budget summaries.

Director appointment and renewal

The Governor in Council appoints the Chair and the President of the Corporation. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with approval of the Governor in Council. Directors are appointed for terms of up to three years and are eligible for reappointment. FCC's Board members include successful primary producers and agribusiness operators from rural and small urban centres.

The Board of Directors has approved a Chair profile and a Director profile that set out the desired qualifications, experience, duties and responsibilities of these positions. These profiles assist in succession planning for Board members and serve as a frame of reference for the selection of new candidates to both positions by the government. The Board also periodically assesses its own composition to ensure that it has the right mix of expertise and background to meet the strategic needs of the Corporation.

Appointments

Rosemary Davis, a member of the Board since 1995, was appointed as Chair of the Board effective June 20, 2000. Donna Graham and Joan Meyer were appointed as Directors on September 26, 2000.

Board education

Each member of the Board receives a detailed orientation briefing upon appointment and meets with the senior executives of the Corporation in order to become fully acquainted with the business and affairs of the Corporation. Information and education on the business of the Corporation is provided to board members on an ongoing basis and includes direct access to members of senior management. Board members also participate in ongoing development activities, including attendance at educational seminars sponsored by the Conference Board of Canada and periodic board in-service governance sessions with experts on governance.

Loans where Directors may have a material interest

Agriculture and agribusiness knowledge is one of the key attributes for a Board member to possess. The Board recognizes that Directors who are drawn from the agricultural sector may, from time to time, become FCC customers.

As a matter of governance practice, the Board has no involvement in the approval of any loans including their terms, conditions or interest rates. In addition, the Board has a clearly enunciated policy governing the matter of loans where a director may have a material interest. This policy, along with the *Financial Administration Act* and the Conflict of Interest Code for Public Office Holders, clearly sets out a process to distance a Director from any involvement in the particular matter.

Directors must disclose any interest in, and refrain from voting or making representations in respect of, any material contract with the Corporation. The policy further states that any such loan or material contract where a Director may be interested shall be handled in an independent and arms-length fashion and that no advantage or preference shall be shown in relation to either.

Board composition

The Board of Directors is composed of 12 members including Chair, President and Chief Executive Officer and 10 Directors. Eleven of the Directors, including the Chair, are independent of management and the Board has in place policies and procedures to ensure that Directors have the ability to exercise independent judgement with a view to the best interests of the Corporation.

FCC's President and Chief Executive Officer is appointed on a full-time basis by the Governor in Council and is also a member of the Board of Directors. John J. Ryan was appointed to this position on September 1, 1997.

Audit Committee

Chair: Marie-Andrée Mallette
Members: Rosemary Davis
Donna Graham
Joan Meyer
Maurice Kraut
Germain Simard

The Audit Committee, composed entirely of non-management Directors, oversees FCC's financial performance and reviews the Corporation's financial and operational reporting systems, internal control systems, audit programs and integrated risk management processes. Any recommendations are brought to the attention of Board as required. In discharge of its responsibilities, the Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General, the auditors for FCC.

During this fiscal year, the Audit Committee met five times and carried out its mandate in four key areas:

- approved the 1999-2000 Financial Statements and Annual Report and the quarterly financial results for the fiscal year 2000-01;
- approved the 2000-01 annual corporate audit plan and all final audit reports issued, as well as the status of actions taken by management to address areas requiring improvement;
- approved Board and CEO Expense reports for fiscal 2000-01; and
- reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 1999-2000, as well as the plan for the 2000-01 annual audit.

Human Resources Committee

Chair: Eleanor M. Hart
Members: Rosemary Davis
John J. Ryan
Rasphal Dhillon
Warren Ellis
Marilyn Marie Scott

The Human Resources Committee's primary responsibility is to review all major human resources policy matters and to make recommendations to the Board of Directors.

The Committee reviews and makes recommendations on human resource development plans and succession plan frameworks for all management positions at the Corporation and evaluates the performance of the Chief Executive Officer. It oversees the employment equity and official language policies of the Corporation and the design, objectives and competitiveness of FCC's compensation plans. The Committee also pays close attention to the Corporation's Human Resource Index survey and subsequent action plans.

During this fiscal year, the Human Resources Committee met five times and carried out the following activities:

- set the CEO's objectives for 2000-01 and evaluated performance against those objectives;
- examined the Corporation's compensation policies;
- assessed the Corporation's performance in the areas of official languages and employment equity;
- reviewed the 2001 Human Resource Index survey results and plans; and
- completed an annual business continuity plan by identifying key organizational positions and succession plans for these positions.

Corporate Governance Committee

Chair: Edward W. Clark
Members: Rosemary Davis
John J. Ryan
Maurice Kraut
Marie-Andrée Mallette
Marilyn Marie Scott

The Corporate Governance Committee provides a focus on Board governance, as well as assesses corporate values and the elements that facilitate its effectiveness. The Committee:

- manages and recommends enhancements to the Corporation's system for corporate governance;
- advises the Board of any governance issues or processes which need to be considered by the Board or any its committees; and
- makes recommendations on accountability statements for the roles of the Board, Chair, Board members, Committee Chairs and the Chief Executive Officer.

During this fiscal year, the Corporate Governance Committee met four times and carried out the following activities:

- reviewed the composition and recommended appointments to the committees of the Board;
- discussed the orientation process and established a mentoring approach for new Board members;
- recommended enhancements to the Board policy on loans where directors may have a material interest that were subsequently approved by the Board;
- reviewed the level of Board remuneration and made a recommendation to the Board;
- updated the Board member profile to ensure an appropriate mix of expertise that reflects the current needs and strategic direction of the Corporation;
- reviewed Chapter 18 on Governance of Crown Corporations as presented in the Auditor General's December 2000 Report to the House of Commons.

Board and management relations

A Board's ability to be able to work closely with management and simultaneously function with an independent perspective is central to effective corporate governance. FCC's Board strives to develop a strong working relationship with all members of senior management. In turn, it expects FCC management to implement the Corporation's strategy and business plan and to keep the Board apprised of its activities.

In conjunction with the Chief Executive Officer, the Board also ensures that an appropriate allocation of responsibilities between both parties occurs. In addition, the Board establishes clear accountability, including a set of corporate objectives and an evaluation framework for the CEO.

Throughout the year, the Board of Directors has maintained a commitment to open communication with management. Members of senior management regularly attend and participate in the discussions at Board meetings on a rotational basis.

Pension Committee

The Corporation developed a new pension plan for its employees effective July 1, 2000 and withdrew from the *Public Service Superannuation Act* pension plan. The Board monitored the establishment and implementation of the pension plan and participated in the creation of the Pension Committee as a committee of the Corporation, with representation from the Board, senior management and elected employee representatives. The Board defined a governance structure for the Pension Committee, including its role and responsibilities, and is responsible for overseeing the administration of the plan and establishing investment policies and goals.

Actions requiring Board approval

There is a clear understanding between management and the Board of Directors, through historical board practice and accepted legal practice, that all matters of a material nature must be presented to the Board of Directors for approval. The Board by-laws state that all significant corporate policies require Board approval, including the corporate plan as well as the strategic, financial and borrowing plans.

Board remuneration

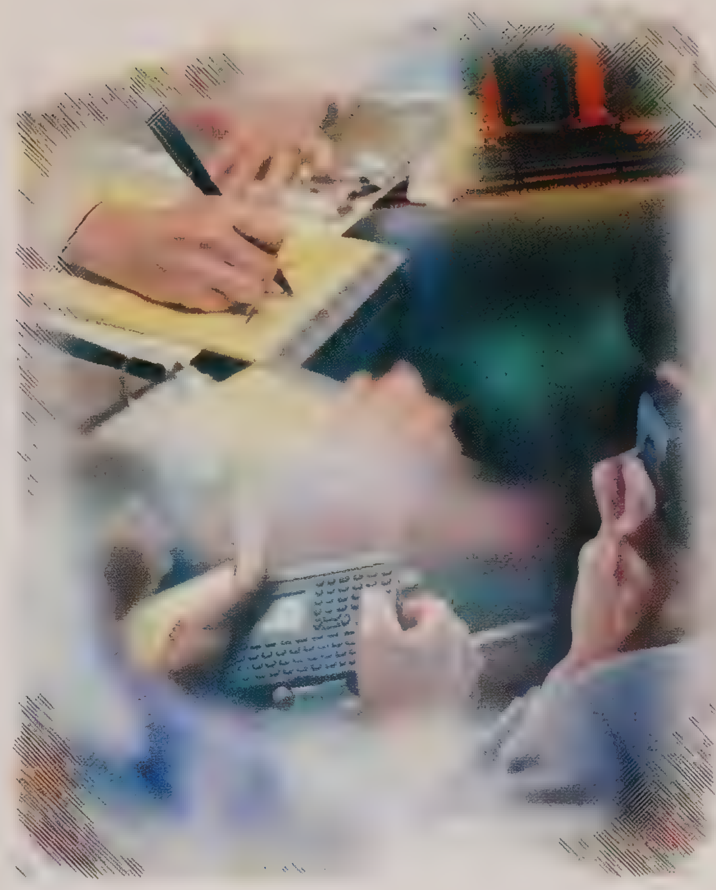
For the performance of their duties, Directors are paid an annual retainer and per diem amounts, which are set by the Governor in Council pursuant to the *Financial Administration Act*, on the recommendation of the Minister of Agriculture and Agri-Food.

Following a thorough review of remuneration levels for Governor in Council appointees to Crown boards and agencies, the Privy Council established new remuneration guidelines during the fiscal year. Pursuant to Ministerial recommendations, the Governor in Council subsequently approved adjustments to Board member remuneration effective October 1, 2000. The new retainers and per diems were applied for the second half of the fiscal year.

The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended. Committee Chairs receive an annual retainer of $6,400 and $375 per day for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 respectively.

Per diems are paid for time spent performing corporate business in accordance with corporate policies. In the case of more than one meeting being held on one day, only one per diem is paid to each attendee.

Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties. These expenses vary from Director to Director according to committee responsibilities and distance traveled to participate in Board meetings.



2000-01 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remuneration (A&B)	Board meeting attendance (%)	Committee meeting attendance[1] (%)	Board expenses
Donald W. Black[2]	$ 1,083	$ 750	$ 1,833	100	100	$ –
Edward W. Clark	5,325	9,075	14,400	100	100	22,272
Rosemary Davis	8,650	9,240	17,890	100	100	15,720
Rashpal Dhillon[3]	4,450	2,100	6,550	20	20	6,007
Warren Ellis	4,450	8,775	13,225	100	100	22,842
Donna Graham	2,700	4,425	7,125	100	100	6,135
Eleanor M. Hart	5,325	8,475	13,800	100	100	17,105
Maurice Kraut	4,450	5,100	9,550	100	100	6,948
Marie-Andrée Mallette	5,325	6,975	12,300	80	80	14,800
Joan Meyer	2,700	3,750	6,450	100	100	1,634
Marilyn Marie Scott	4,450	3,750	8,200	80	80	4,371
Germain Simard	4,450	7,350	11,800	100	100	18,112
Total	**$ 53,358**	**$ 69,765**	**$123,123**	**7 meetings**		**$135,946**

[1] 14 committee meetings were held: five Audit, five Human Resources and four Corporate Governance Committee meetings

[2] Donald W. Black stepped down from the Board on May 31, 2000.

[3] Mr. Dhillon's absence was authorized.

GLOSSARY of

Terms

Agribusiness/value added – Businesses that produce, transport, store, distribute, process or add value upstream or downstream from primary production.

Alliances – Relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services.

Allowance for credit losses – Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Asset/Liability Management Committee (ALCO) – A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point – One hundredth of one percent, used when describing applicable interest rates or the yield of an investment.

Corporate governance – Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Counterparty – The opposite side of a financial transaction, typically another financial institution.

Counterparty risk – The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating – A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Derivative financial instrument – A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

Efficiency ratio – Administration expenses as a percentage of income before administration expenses, recovery on real estate and provision for credit losses.

Enterprise – Specific type of agricultural operation, for example, dairy, cash crops, beef, etc.

Foreign exchange risk – The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis – A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes.

Hedge – A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans – Loans where, when in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Integrated risk management – The coordination of risk mitigation efforts to enhance the risk culture of the organization.

Interest and currency rate swaps – Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense – Expense to the Corporation incurred from the use of interest-bearing funding instruments.

Interest income – Income earned on loans receivable, cash and investments.

Interest rate option – A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR) – Exposure to a decline in net interest income and capital position as a result of a relative or absolute change in interest rates. Varieties of interest rate risk include: prepayment risk, commitment risk and reinvestment risk.

Leverage – The relationship between total liabilities and the equity of a business.

Liquidity risk – The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate – Percentage ratio of principal dollars renewed to principal dollars matured.

Market Value of Portfolio Equity (MVPE) – The net present value of assets less liabilities. It is used to measure the sensitivity of the Corporation's net economic worth to changes in interest rates.

Net interest income (NII) – The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin – Net interest income expressed as a percentage of average total assets.

Notional amount – The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Return on Assets (ROA) – Net income expressed as a percentage of average total assets.

Return on Equity (ROE) – Net income expressed as a percentage of average equity.

Risk Scoring and Pricing System (RSPS) – A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic Credit Risk Model (SCRM) – A tool to measure overall credit risk present in the portfolio which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

FCC OFFICE

Locations

Alberta

Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Lethbridge, Medicine Hat, Olds, Red Deer, St. Paul, Stony Plain, Vegreville, Vermilion, Westaskiwin, Westlock

British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna

Saskatchewan

Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Manitoba

Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage La Prairie, Steinbach, Stonewall, Swan River, Virden

Ontario

Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lambeth, Lindsay, Listowel, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec

Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-loup, St-Hyacinthe, St-Jean-sur-Richelieu, St-Jérôme, Ste-Foy, Sherbooke, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick

Grand Falls, Moncton, St. George Sussex, Woodstock

Newfoundland

St. John's

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